FINECO BANK

DISCLOSURE BY INSTITUTIONS

ACCORDING TO REGULATION (EU) NO. 575/2013 AS AT DECEMBER 31, 2016

This is an English translation of the original Italian document. The original version in Italian takes precedence.

FinecoBank S.p.A. - Member of UniCredit

Disclosure by institutions according to Regulation (EU) 575/2013 as at December 31, 2016

Contents

"FinecoBank Banca Fineco S.p.A."
in abbreviated form "FinecoBank S.p.A.", or "Banca Fineco S.p.A." or "Fineco Banca S.p.A."
Company controlled by UniCredit S.p.A., UniCredit Banking Group, Register of Banking Groups no. 2008.1, Member of the National Guarantee Fund and National Interbank Deposit Guarantee Fund, Italian Banking Association Code 03015, Tax Code and Milan Company Register no. 01392970404 – R.E.A. (Economic and Administrative Index) no. 1598155, VAT No. 12962340159

Introduction

The Bank's Disclosure by Institutions is prepared in accordance with the prudential rules for banks and investment companies, which came into force on January 1, 2014 and is contained in Directive 2013/36/EU (Capital Requirements Directive, CRD IV) and in Regulation 575/2013/EU (Capital Requirements Regulation, CRR).
The Directive and the Regulation transpose the framework known as Basel III (Basel Committee for Banking Supervision) into European Union legislation. The new EU rules were collated and implemented by the Bank of Italy through the "Supervisory Regulations for Banks" (Circular 285 of December 17, 2013).

The CRR requires Institutions to publish the information set out in Title I Part Eight at least annually, in conjunction with the financial statements, and to assess the need to publish all or some of the information more frequently in view of the relevant characteristics of their activities.
The Disclosure by Institutions is published at both consolidated and individual level if the bank is considered a "significant subsidiary" (art. 13 CRR, Application of disclosure requirements on a consolidated basis).

Having been identified as a "significant subsidiary" in the UniCredit group and included by the ECB/EBA in the list of significant supervised entities, the Bank publishes the Disclosure by Institutions annually and discloses the information specified in articles 437, 438, 440, 442, 450, 451 and 453 of the Regulation.

General Disclosure Requirements

FinecoBank S.p.A is a multi-channel bank belonging to the UniCredit group and is therefore subject to management and coordination by UniCredit S.p.A..
In view of the ownership structure and in order to ensure effective and efficient risk management, the Bank's Risk Management process is structured according to the organisational choices made by the UniCredit group and the Supervisory Instructions for Banks concerning internal control systems.
Risk management and control is performed by the Risk Management function of the Bank in collaboration with the same function of the Parent Company, which performs its role of guidance, coordination and control of risks at Group level. The organisational model has established the Chief Risk Officer function (CRO) Italy function of the Parent Company as the specific liaison for Italy, and this function been assigned the responsibilities related to credit risks, operational risks and reputational risks for Italy, as well as the managerial coordination of Risk Management functions in the Italian Legal Entities, including FinecoBank.
The Bank is responsible for first and second level controls, with specific reference to verifying that the level of risk assumed on an individual basis is in line with the Parent Company's instructions, capital requirements and prudential supervisory rules.

The overall level of risk is assessed by the Bank through the Risk Appetite Framework, a managerial tool for setting the risk appetite that best governs the Bank's business activities, in line with an appropriate level of risk.

Scope of application

Name of the bank to which the disclosure requirements apply

The contents of this document refer to FinecoBank Banca Fineco S.p.A., a subsidiary of UniCredit S.p.A., UniCredit Banking Group.

FinecoBank has been identified by the Parent Company UniCredit S.p.A. as one of the significant subsidiaries of the Group and is included by the ECB/EBA in the list of “significant supervised entities”. Accordingly, it is required to apply the provisions of article 13 of Regulation (EU) No. 575/2013 (CRR) in relation to the disclosure obligations of institutions.

This document contains the information specified in articles 437, 438, 440, 442, 450, 451 and 453 of the Regulation (EU) No. 575/2013 (CRR).

Any discrepancies between the figures presented in this document is solely due to roundings.

Own Funds

From January 1, 2014, the calculation of the capital requirements takes account of the "Basel 3" regulatory framework, transposed in the Regulation 575/2013/EU on the prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – "CRR") and the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive 4 – "CRD 4"), according to the adoption within the Italian regulatory legislation.

Those regulations establish the following structure for Own funds:

- Tier 1 Capital, in turn composed of:
  - Common Equity Tier 1 capital - CET1 and
  - Additional Tier 1 – AT1;
- Tier 2 capital (T2);

the sum of Tier 1 capital and Tier 2 capital makes up the total Own Funds (Total Capital).

With regard to the amount of the transitional adjustments as at December 31, 2016, these amounts – compared to December 31, 2015 – incorporate the provisions introduced by the Regulation (EU) 2016/445 on the exercise of the options and discretion is available in Union law issued by the European Central Bank. They also reflect the progressive reduction of the transitional adjustment for the year 2016, and in particular:

- the unrealised gains on AFS securities are excluded at 40% (60% in 2015);
- the unrealised losses on AFS securities are included at 60% (40% in 2015);
- the actuarial losses calculated in accordance with Article 473 of the CRR are excluded at 60% (80% in 2015).

The Regulation (EU) 575/2013 (CRR) also requires banks, as a general rule, to respectively include within and deduct from their own funds the unrealised gains and losses on assets measure that fair value classified in the "Available-for-sale financial assets" portfolio. For a transitional period, the CRR allows the partial inclusion/deduction of those gains and losses from the Common Equity Tier 1, on a gradually increasing basis, to reach their full inclusion/deduction by January 1, 2018. As an exemption to these transitional arrangements, solely for gains and losses resulting from exposures towards central governments recognised in the "Available-for-sale financial assets" portfolio, the CRR has given the competent authorities the option to allow banks not to include or deduct the unrealised gains or losses for any item of own funds if this treatment was applied before the CRR entered into force (January 1, 2014). By specific provision in the regulations, the neutralisation of the gains and losses can be applied until the Commission has adopted a regulation based on Regulation (EC) 1606/2002 that approves IFRS 9 as a replacement to IAS 39. Upon first time adoption of the CRR in Italy, this option was exercised by the Bank of Italy and the banks had the possibility of opting for the total neutralisation of the gains and losses.

In this regard, in March 2016, the European Central Bank issued Regulation (EU) 2016/445 on the exercise of the options and discretions available in Union law ("ECB Regulation"), which entered into force on October 1, 2016, which allowed the application of the ordinary transitional regime also for exposures to central governments for the banks subject to direct supervision by the ECB ("significant banks"). In addition, on November 29, 2016, Regulation (EU) 2016/2067 was published in the Official Journal of the European Union, through which the European Commission endorsed IFRS 9.

As a result of the above, from October 2016, FinecoBank as a significant bank must respectively include within or deduct from CET 1 the unrealised gains and losses resulting from exposures to central governments classified in the "Available-for-sale financial assets" portfolio, according to the following percentages: 60% for 2016, and 80% for 2017. The amounts remaining from the application of these percentages (40% for 2016 and 20% for 2017) do not need to be included for the calculation of own funds, as they continue to be neutralised, based on the national regime in force as at December 31, 2013.

With regard to defined benefit plans under IAS 19, the entry into force on January 1, 2013 of the amendments (IAS 19R) that prescribe the elimination of the corridor method – with the resulting recognition of the present value of the defined benefit obligation – had an impact on the Bank's shareholders' equity due to the recognition of net actuarial gains/losses in revaluation reserves, which were not previously recognised, in application of the said method. From a regulatory point of view, the supervisory authority ordered the implementation of a prudential filter designed to neutralise, for the year 2016, 60% of the impact of these amendments.

Own funds at December 31, 2016, amounted to €438,121 thousand, calculated by applying the supervisory regulations in force according to the Basel III regulatory framework.
At December 31, 2016, the Own Funds consisted solely of Common Equity Tier 1 (CET 1), as there were no Additional Tier 1 capital items and Tier 2 items.

Transitional Own Funds disclosure template

	12.31.2016		12.31.2015	
	(A) Amount at disclosure date	*C) - Amounts subject to pre-Regulation (EU) No. 575/2013 treatment or prescribed residual amount under Regulation (EU) No. 575/2013*	*(A) Amount at disclosure date*	*C) - Amounts subject to pre-Regulation (EU) No. 575/2013 treatment or prescribed residual under Regulation (EU) No. 575/2013*
Common Equity Tier 1 capital – instruments and reserves				
1 Equity instruments and related share premium accounts (A)	202,180		202,084	
of which: ordinary shares	*202,180*		*202,084*	
2 Retained earnings (B)	250,247		214,666	
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) (C)	21,366		33,550	
5a Independently reviewed interim profits net of any foreseeable charge or dividend (D)	41,684		35,677	
6 Common Equity Tier 1 (CET1) capital before regulatory adjustment	**515,477**		**485,977**	
Common Equity Tier 1 capital (CET1): regulatory adjustments				
7 Additional value adjustments (E)	(577)		(54)	
8 Intangible assets (net of related tax liabilities) (F)	(74,055)		(75,003)	
9 Transitional adjustment related to IAS 19 (G)	3,853		4,542	
16 Direct and indirect holdings by an institution of own CET1 instruments (H)	(6,153)		(8,557)	
26a Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468 (I)	182		(13,002)	
of which: filtered for unrealised gains (losses) on debt securities issued by European Union central governments	*(424)*		*(7,149)*	
of which: filtered for unrealised gains on debt and equity securities other than those issued by European Union central governments	*606*		*(5,853)*	
26b Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	(606)		(2,926)	
of which: filtered for unrealised gains on debt and equity securities other than those issued by European Union central governments	*(606)*		*(2,926)*	
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(77,356)**		**(95,000)**	
29 Common Equity Tier 1 capital (CET1)	**438,121**		**390,977**	
36 Additional Tier 1 (AT1) capital before regulatory adjustments2	**-**		**-**	
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	**-**		**-**	
44 Additional Tier 1 (AT1) capital	**-**		**-**	
45 Tier 1 Capital (T1= CET1 + AT 1)	**438,121**		**390,977**	
51 Tier 2 (T2) capital before regulatory adjustments	**-**		**-**	
Tier 2 (T2) capital: regulatory adjustments				
56c Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	-		2,926	
of which: filtered for unrealised gains on debt and equity securities other than those issued by European Union central governments	*-*		*2,926*	

(Amounts in € thousand)

continued on the next page

	12.31.2016		12.31.2015	
	(A) Amount at disclosure date	*C) - Amounts subject to pre-Regulation (EU) No. 575/2013 treatment or prescribed residual under Regulation (EU) No. 575/2013*	*(A) Amount at disclosure date*	*C) - Amounts subject to pre-Regulation (EU) No. 575/2013 treatment or prescribed residual under Regulation (EU) No. 575/2013*
57 Total regulatory adjustments to Tier 2 (T2) capital	**-**		**2,926**	
58 Tier 2 capital (T2)	**-**		**2,926**	
59 Total capital (TC=T1+T2)	**438,121**		**393,903**	
60 Total risk-weighted assets	**1,909,713**		**1,828,007**	
Capital ratios and buffers				
61 Common Equity Tier 1 (as a percentage of risk exposure amount)	**22.94%**		**21.39%**	
62 Tier 1 capital (as a percentage of risk exposure amount)	**22.94%**		**21.39%**	
63 Total capital (as a percentage of risk exposure amount)	**22.94%**		**21.55%**	
64 Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	5.125%		5.125%	
65 of which: capital conservation buffer requirement	0.625%		0.625%	
66 of which: countercyclical capital buffer requirement	0.0001%		-	
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	17.82%		16.26%	
Capital ratios and buffers				
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	9,905		13,992	
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in article 38 (3) are met)	30,693		32,101	
Applicable caps on the inclusion of provisions in Tier 2				
Capital instruments subject to phase-out arrangements (only applicable between January 1, 2013 and January 1, 2022)				

(Amounts in € thousand)

Note:
Amounts and sub-amounts, other than totals, that are equal to zero or not applicable are not reported.

A. The item comprises the share capital of 606,805,436 ordinary shares with a par value of €0.33, totalling €200,246 thousand, plus the share premium reserve of €1,934 thousand.

B. The item comprises the legal reserve, the extraordinary reserve and other retained earnings.

C. Accumulated other comprehensive income (OCI) consists of: the net positive reserve for debt securities issued by central governments of EU member countries, held in the "Available-for-sale financial assets" portfolio after December 31, 2009, amounting to €1,059 thousand; the net negative reserve for debt securities, other than those mentioned above, held in the "Available-for-sale financial assets" portfolio, amounting to €1,514 thousand; the negative IAS19 Reserve amounting to €6,339 thousand and the Other reserves amounting to €28,160 thousand.

D. The amount recognised in Own Funds at December 31, 2016, pursuant to article 26 of the CRR was calculated on the year-end profit for 2016, net of foreseeable dividends, equal to €170,160 thousand.

E. The item includes the filter relative to additional valuation adjustments (AVA), amounting to €577 thousand, calculated on the assets and liabilities reported in the financial statements, measured at fair value.

F. The item comprises goodwill, net of deferred taxes, amounting to €66,324 thousand and other intangible assets amounting to €7,731 thousand.

G. As of January 1, 2013, as a result of the entry into force of the amendments to IAS 19 (IAS 19R), the elimination of the corridor method – requiring recognition of present value of defined benefit obligations – resulted in an impact on shareholder's equity related to the recognition in the revaluation reserves of actuarial net losses not previously recognised using this method. This revaluation reserve – equal to -€6,339 thousand, included in item “3. Accumulated other comprehensive income” – is subject to a transitional adjustment for €3,853 thousand reported in the present item, equal to 60% of the amount calculated in accordance with CRR article 473.

H. The item includes treasury shares totalling €4,338 thousand, treasury shares held synthetically of €65 thousand and the commitment to buy own shares amounting to €1,750 thousand.

I. With reference to the contents of Bank of Italy Bollettino di Vigilanza No. 12 issued in December 2013 related to the transitional provisions on Own Funds regarding the treatment of unrealised gains and losses associated with exposures to central governments classified under IAS 39 as “Available-For-Sale Financial Assets”, the Bank exercised the option contained in the Bank of Italy Circular 285 (“Supervisory Regulations for Banks”) Part 2, Chapter 14, Section II, Paragraph 2, final point, with reference to consolidated own funds. Accordingly, starting from March 31, 2014 reporting period and in line with previous periods, the Bank did not include in any element of Own Funds unrealised gains or losses on exposures to central governments classified in the “available-for-sale financial assets” category of IAS 39, in accordance with the procedures set out in article 467 of the CRR. In this regard, in March 2016, the European Central Bank issued Regulation (EU) 2016/445 on the exercise of options and discretions available in Union law (“ECB Regulation”), which entered into force on October 1, 2016, which allowed banks subject to direct supervision by the ECB (“significant banks”) to respectively include within or deduct from CET 1 the unrealised gains and losses resulting from exposures to central governments classified in the “Available-for-sale financial assets” portfolio, according to the following percentages: 60% for 2016, and 80% for 2017. Accordingly a prudential positive filter has been applied to the unrealised losses at December 31, 2016 for the securities classified in the AFS category amounting to €182 thousand (40% of the net overall reserve of the AFS portfolio, amounting to €455 thousand).

J. Under the national transitional provisions, a negative prudential filter has been applied of €606 thousand, corresponding to 40% of the net negative reserve of the AFS securities other than those issued by central governments. The unrealised gains and losses relating to exposures to central governments continue to be neutralised based on the national regime in force at December 31, 2013.

Accounting and regulatory balance sheet consolidation, with reconciliation of elements of Own Funds

	*Accounting figures**	*Amounts relevant for Own Funds purposes ***	*Ref. Own Funds Table*
ASSET ITEMS			
130. Intangible assets, of which:	**97,333**	**(74,055)**	
Goodwill	*89,602*	*(66,324)*	*8*
Other non-current intangible assets	*7,731*	*(7,731)*	*8*
140. Tax assets, of which:	**13,165**	**-**	
a) current	*1,571*	*-*	*-*
b) deferred	*11,594*	*-*	*21*
deferred tax assets that rely on future profitability	*7,415*	*-*	*21*
LIABILITIES			
130. Valuation reserves, of which:	**(6,794)**	**(3,366)**	
Revaluation reserves for available-for-sale financial assets	*(455)*	*(879)*	*3, 26a, and 26b*
Revaluation reserves for net actuarial gains (losses)	*(6,339)*	*(2,487)*	*3 and 9*
160. Reserves	**278,408**	**278,408**	2 and 3
170. Share premium reserve	**1,934**	**1,934**	1
180. Share capital	**200,246**	**200,246**	1
190. Treasury shares	**(4,338)**	**(4,338)**	16
200. Net Profit (Loss) for the year	**211,844**	**41,684**	5a
OTHER ELEMENTS OF OWN FUNDS			
Total other elements, of which:		**(2,392)**	
Prudential filters (-) fair value adjustments		(577)	7
Deductions of holdings of own Common Equity Tier 1 capital instruments (UCITS units)		(1,815)	16
Total Own Funds		**438,121**	

(Amounts in € thousand)

* The figures for the accounting consolidation and the regulatory consolidation are identical, hence they are shown in a single column.
** The plus/minus sign (+/-) represents the (positive / negative) contribution to Own Funds.

Changes in Own Funds

	01.01.2016 / 12.31.2016	01.01.2015 / 12.31.2015
Common Equity Tier 1 Capital - CET1		
Beginning of period	**390,977**	**353,133**
Instruments and Reserves		
Share capital, issue-premium reserves and other reserves	6,237	9,985
Own CET1 instruments	4,154	(8,555)
Commitments to purchase own CET1 instruments	(1,750)	-
Accumulated other comprehensive income (OCI)	(18,421)	9,364
Profit allocated to reserves	41,684	35,677
Regulatory adjustments		
Intangible assets – Goodwill	467	951
Intangible assets - Other intangible assets	481	(71)
Fair value adjustments (AVA)	(523)	(54)
Other transitional adjustments to Common Equity Tier 1 Capital	14,815	(9,453)
End of period	**438,121**	**390,977**
Additional Tier 1 – AT1		
Start of period	**-**	**-**
End of period	**-**	**-**
TIER 2 – T2		
Start of period	**2,926**	**-**
Other transitional adjustments to Tier 2	(2,926)	2,926
End of period	**-**	**2,926**
Total Own Funds	**438,121**	**393,903**

(Amounts in € thousand)

Own Funds totalled €438,321 thousand, an increase on December 31, 2015 attributable to the combination of the following factors:

- a €6,237 thousand increase in Share Capital and Other reserves, attributable to the increase in the reserve related to equity-settled plans;
- the portion of retained profits 2016, equal to €41,684 thousand, calculated on year-end profits 2016, as per CRR 575/2013, article 26.2;
- the €18,421 thousand increase in Accumulated other comprehensive income (OCI) and increase of €14,815 thousand in the effects from the application of the transitional arrangements;
- the €4,154 thousand decrease in Own CET1 instruments held in the portfolio and deducted from CET1, due to the granting of FinecoBank ordinary shares held as treasury shares to the Bank's Personal Financial Advisors and Network Managers, under the second tranche of the stock granting "2014 PFA Plan";
- recognition of the commitment of €1,750 thousand to buy own CET1 equity instruments for which the institution has received the buyback authorisation from the Supervisory Authority;
- increase in the AVA adjustments of €523 thousand;
- combined increase of tax liabilities associated with goodwill and other intangible fixed assets of around €948 thousand;
- closure of the transitional adjustments to Tier 2 of €2,926 thousand recognised as at December 31, 2015.

Capital requirements

The Bank has made a priority of capital management and allocation on the basis of the risk assumed in order to expand its operations and create value. These activities involve the various planning and control stages and, specifically, the planning, budgeting and monitoring processes (analysis of expected and actual performance, analysis and monitoring of limits, performance analysis and monitoring of capital ratios).
Capital is managed dynamically: the Bank prepares the financial plan, monitors capital requirements for regulatory purposes and anticipates the appropriate steps required to achieve goals.

On the basis of the EU regulations set out in Directive 2013/36/EU and Regulation No 575/2013/EU, collated and implemented by the Bank of Italy through Circular No. 285 of December 17, 2013 "Supervisory Regulations for Banks" as amended, the Bank must satisfy the following own funds requirements established in Article 92 of the CRR, expressed as a percentage of the total risk exposure amount (RWA – Risk Weighted Assets):

- a Common Equity Tier 1 capital ratio of at least 4.5%;
- a Tier 1 capital ratio of at least 6%;
- a total capital ratio of at least 8%.

Furthermore, in addition to the Common Equity Tier 1 necessary to meet own funds requirements under Article 92 of the CRR, banks are required to hold a capital buffer, for 2016, of 0.625% of the Bank's overall risk exposure (1.25% for 2017, 1.875% for 2018 and 2.5% from 2019) and an institution-specific countercyclical capital buffer of 0.0001% for 2016.

On December 12, 2016, the European Central Bank sent the Parent Company UniCredit the decision on capital adequacy as part of the SREP assessment. For FinecoBank, the European Central Bank and the other competent authorities concluded that the level of Own Funds and Liquidity was adequate and, therefore, did not impose any additional requirement according to Article 16 of the Regulation (EU) 1024/2013 or the national legislation implementing Article 104 (1) (a) and Article 105 of the Directive 2013/36/EU.

To calculate regulatory requirements for credit and market risks, the Bank applies standardised approaches, in accordance with Part Three, Title II, Chapter 2 of Regulation (EU) No. 575/2013 (CRR).
As regards operational risks, the Bank has obtained approval from the Bank of Italy to use Advanced Measurements Approaches (AMA) to calculate capital requirements for operational risks as of June 30, 2010.

The Basel III supervisory regulations require that entities using methods based on internal ratings to calculate capital requirements for credit risk or advanced measurements approaches for calculating Own Funds requirements for operating risk must, until December 31, 2017, hold own funds that are equal to or above 80% of the requirements under Basel I (article 500 CRR Regulation 575/2013).

In line with Group guidelines, the Bank assesses capital adequacy by managing and allocating (regulatory and economic) capital according to the risks assumed and with the aim of directing its operations towards the creation of value.
The Bank has set itself the goal of generating income in excess of that necessary to remunerate risk (cost of equity). This goal is achieved by allocating capital to the different areas and operational units according to their specific risk profiles and by adopting a risk-adjusted performance measurement, RAPM. In support of planning and monitoring processes, a number of indicators are used that combine and summarise the operating, financial and risk variables to be considered.

Capital and its allocation are therefore extremely important in defining strategies, since on the one hand it represents the shareholders' investment in the Bank, which must be adequately remunerated, while on the other hand it is a scarce resource on which there are external limitations imposed by supervisory regulations.

The definitions of capital used in the allocation process are as follows:

- Risk or employed capital: this is the equity component provided by shareholders (employed capital) for which a return that is greater than or equal to expectations (cost of equity) must be provided;
- Capital at risk: this is the portion of capital and reserves that is used (the budgeted amount or allocated capital) or was used to cover (at period-end - absorbed capital) risks assumed to pursue the objective of creating value.

If capital at risk is measured using risk management methods, it is defined as economic capital; if it is measured using regulatory provisions, it is defined as regulatory capital.

Economic capital and regulatory capital differ in terms of their definition and the categories of risk covered. The former is based on the actual measurement of exposure assumed, while the latter is based on templates specified in regulatory provisions. Economic capital is set at a level that will cover adverse events with a certain probability (confidence interval), while regulatory capital is quantified on the basis of a CET1 target ratio higher than that required by the supervisory regulations in force and in line with Group targets.

The process of capital allocation is based on a "dual track" logic, considering both economic capital, measured through the full evaluation of risks via risk management models, and regulatory capital, quantified applying internal capitalisation targets to regulatory capital requirements.
The Bank monitors regulatory capital in relation to shareholders' equity, both according to the accounting and supervisory definition (Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital and Own funds), and in relation to the planning and performance of risk-weighted assets (RWAs).

The assessment of the Bank's capital adequacy is a dynamic process that requires constant monitoring designed to control the level of available resources compared to the capital used, and also to provide indications to the decision-making bodies. The monitoring is accompanied by an efficient and appropriate communications system, both for management purposes and communications with the supervisory authorities.

The joint analysis of the risk/return profile is performed by the Bank through performance measures corrected for risk – namely EVA (Economic Value Added) and RARORAC.

Credit and counterparty risk

Portfolio	12.31.2016			12.31.2015		
	Exposure to credit and counterparty risk	*Risk-weighted assets*	*Capital requirement*	*Exposure to credit and counterparty risk*	*Risk-weighted assets*	*Risk-weighted assets*
Exposures subject to the IRB approach						
Total – ISB approach	-	-	-	-	-	-
Exposures subject to the standardised approach						
Exposures with or secured by central governments or central banks	4,040,518	80,911	6,473	2,559,604	84,653	6,772
Exposures with or secured by Institutions	16,259,880	22,784	1,823	15,059,974	29,198	2,336
Exposures with or secured by regional governments or local authorities	-	-	-	-	-	-
Exposures with or secured by multilateral development banks	3	-	-	3	-	-
Exposures with or secured by Companies and other entities	138,486	137,209	10,977	137,933	136,406	10,912
Retail exposures	1,034,666	776,000	62,080	921,226	690,919	55,274
Exposures secured by real estate property	917	329	26	211	96	8
Exposures in default	3,664	3,736	299	4,875	4,903	392
Equity exposures	3,532	3,532	283	4,198	10,488	839
Other exposures	109,337	109,331	8,746	107,177	107,171	8,574
Total - standardised approach	**21,591,003**	**1,133,832**	**90,707**	**18,795,201**	**1,063,834**	**85,107**
Exposures to central counterparties in the form of pre-financed contributions to the default fund		**381**	**30**		**426**	**34**
Risk assets - Credit and counterparty risk	**21,591,003**	**1,134,213**	**90,737**	**18,795,201**	**1,064,260**	**85,141**

(Amounts in € thousand)

Credit and counterparty risk – Breakdown of credit risk and counterparty risk

Portfolio	12.31.2016				12.31.2015			
	Credit risk		*Counterparty risk*		*Credit risk*		*Counterparty risk*	
	Risk-weighted assets	*Capital requirement*	*Risk-weighted assets*	*Capital requirement*	*Risk-weighted assets*	*Capital requirement*	*Risk-weighted assets*	*Risk-weighted assets*
Exposures subject to the IRB approach								
Total – ISB approach	-	-	-	-	-	-	-	-
Exposures subject to the standardised approach								
Exposures with or secured by central governments or central banks	80,911	6,473	-	-	84,653	6,772	-	-
Exposures with or secured by Institutions	10,562	845	12,222	978	13,143	1,051	16,055	1,284
Exposures with or secured by Companies and other entities	98,215	7,857	38,994	3,120	80,462	6,437	55,944	4,476
Retail exposures	585,835	46,867	190,165	15,213	444,411	35,553	246,508	19,721
Exposures secured by real estate property	329	26	-	-	96	8	-	-
Exposures in default	3,736	299	-	-	4,903	392	-	-
Equity exposures	3,532	283	-	-	10,488	839	-	-
Other exposures	109,331	8,746	-	-	107,171	8,574	-	-
Total - standardised approach	**892,451**	**71,396**	**241,381**	**19,311**	**745,327**	**59,626**	**318,507**	**25,481**
Exposures to central counterparties in the form of pre-financed contributions to the default fund	**381**	**30**			**426**	**34**		
Risk assets - Credit and counterparty risk	**892,832**	**71,426**	**241,381**	**19,311**	**745,753**	**59,660**	**318,507**	**25,481**

(Amounts in € thousand)

Total capital requirements

Type of risk	*Approach used*	*Capital requirements 12.31.2016*	*Capital requirements 12.31.2015*
1. On-balance-sheet risk assets	Standardised approach	70,514	59,406
2. Guarantees issued and commitments to disburse funds	Standardised approach	882	221
3. Derivative contracts	Current value approach	130	132
4. Securities financing transactions	CRM - Comprehensive method with regulatory adjustments for volatility	19,181	25,348
Capital requirements credit and counterparty risk		**90,707**	**85,107**
Capital requirements for exposures to central counterparties in the form of pre-funded contributions to the default fund		**30**	**34**
Market risk			
1. Foreign-exchange risk	Standardised approach	827	-
2. Debt securities position risk	Standardised approach	1,113	514
3. Equity securities position risk	Standardised approach	493	257
4. Position risk on commodities	Standardised approach	-	-
Capital requirements for market risk		**2,433**	**771**
1. Concentration risk	Standardised approach	-	-
Capital requirements for concentration risk		**-**	**-**
1. Risk of credit valuation adjustment	Standardised approach	127	160
Capital requirements for risk of credit valuation adjustment		**127**	**160**
1. Regulatory risk	Standardised approach	-	1
Capital requirements for regulatory risk		**-**	**1**
1. Advanced measurement approach	Advanced measurement approach	59,480	60,168
Capital requirements for operational risk		**59,480**	**60,168**
Total capital requirements		**152,777**	**146,241**

(Amounts in € thousand)

Capital adequacy

As at December 31, 2016, the Bank's prudential regulatory requirements were determined by applying the current supervisory regulations of the Basel III Traditional Standardised Approach, except for capital requirements for operational risk, which were calculated using Advanced Measurement Approaches.

Category/Amount	*Non-weighted amounts*		*Weighted/required amounts*	
	12.31.2016	*12.31.2015*	*12.31.2016*	*12.31.2015*
A. RISK ASSETS				
A.1 Credit and counterparty risk	**21,591,003**	**18,795,201**	**1,134,213**	**1,064,260**
1. Standardised approach	21,591,003	18,795,201	1,134,213	1,064,260
2. Internal rating method	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**90,737**	**85,141**
B.2 Risk of adjustment of valuation of credit			**127**	**160**
B.3 Regulatory risk			**-**	**1**
B.4 Market risk			**2,433**	**771**
1. Standardised approach			2,433	771
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**59,480**	**60,168**
1. Basic Indicator Approach			-	-
2. Standardised approach			-	-
3. Advanced measurement approach			59,480	60,168
B.6 Other calculation elements			**-**	**-**
B.7 Total prudential requirements			**152,777**	**146,241**
C. C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			1,909,713	1,828,007
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio)			22.94%	21.39%
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			22.94%	21.39%
C.3 Own funds/Risk-weighted assets (Total capital ratio)			22.94%	21.55%

(Amounts in € thousand)

As described above, the Bank uses advanced measurement approaches for calculating Own Funds requirements for operational risk. Therefore, under Basel III (article 500 CRR – Regulation 575/2013) it must hold own funds until December 31, 2017 that are equal to or above 80% of the requirements under Basel I. As at December 31, 2016, the Basel I capital requirements amounted to €345,377 thousand; accordingly, 80% of that amount was €276,301 thousand.

Capital Buffers

Article 136 of the directive EU/2013/36 (Capital Requirements Directive, CRD4) establishes the requirement for the designated national authorities to set up an operational framework for establishing the countercyclical capital buffer (CCyB) with effect from January 1, 2016. The buffer is reviewed on a quarterly basis. The European legislation was implemented in Italy through the Bank of Italy Circular 285/2013 (Supervisory regulations for banks), which contain specific rules on the CCyB. Legislative Decree 72 of May 12, 2015 identified the Bank of Italy as the authority designated to adopt the macro prudential measures in the banking sector, including the CCyB. The rules apply at individual and consolidated level to banks and investment firms.

The countercyclical capital buffer seeks to ensure that the capital requirements of the banking sector take account of the macro-financial environment that the banks operate in. Its primary purpose is to use a capital buffer to achieve the macro-prudential objective of protecting the banking sector from periods of excessive growth in aggregate credit, which have often been associated with the accumulation of risk at system level. In times of recession, the buffer should contribute to reducing the risk of the availability of credit being limited by capital requirements that could undermine the performance of the real economy and lead to additional credit losses in the banking system.

Accordingly, institutions are required to maintain an institution-specific countercyclical capital buffer, equivalent to their total risk exposure amount, calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013 multiplied by the weighted average of the countercyclical buffer rates. The institution-specific countercyclical capital buffer rate consists of the weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located. To calculate the weighted average, institutions must apply to each countercyclical buffer rate its total own funds requirements for credit risk, that relates to the relevant credit exposures in the territory in question, divided by its total own funds requirements for credit risk that relates to all of its relevant credit exposures.

The introduction of the countercyclical buffer includes a phase-in period between January 1, 2016 and the end of 2018, and will become fully effective from January 1, 2019 (in 2016 the countercyclical buffer cannot be higher than 0.625%, 1.25% in 2017, 1.875% in 2018, and 2.5% in 2019).

The Bank's specific countercyclical capital buffer as at December 31, 2016 was 0.0001%, corresponding to around €1 thousand.

<u>Amount of institution-specific countercyclical capital buffer</u>

	Figures as at December 31, 2016
Total risk exposure amount	1,909,713
Institution-specific countercyclical capital buffer rate	0.0001%
Institution-specific countercyclical capital buffer	1

(Amounts in € thousand)

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
	Exposure value for SA	*Exposure value for IRB approach*	*Sum of long and short position of the trading book*	*Exposure value in the trading book for internal models*	*Exposure value for SA*	*Exposure value for IRB approach*	*Of which: general credit exposures*	*Of which: trading book exposures*	*Of which: securitisation exposures*	*Total*	*Weightings for own funds requirements*	*Countercyclical buffer*
Breakdown by country												
Abu Dhabi	249	-	1	-	-	-	5	-	-	5	0.000%	0.000%
Andorra	8	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Arabia Saudita	21	-	2	-	-	-	1	-	-	1	0.000%	0.000%
Argentina	93	-	-	-	-	-	6	-	-	6	0.000%	0.000%
Australia	102	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Austria	262	-	-	-	-	-	20	-	-	20	0.000%	0.000%
Belgio	17	-	304	-	-	-	1	-	-	2	0.000%	0.000%
Bermuda	216	-	29	-	-	-	17	-	-	17	0.000%	0.000%
Brasile	207	-	289	-	-	-	4	10	-	14	0.000%	0.000%
Bulgaria	42	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Canada	6	-	63	-	-	-	-	1	-	2	0.000%	0.000%
Cile	5	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Cina	39	-	8	-	-	-	1	-	-	1	0.000%	0.000%
Colombia	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Croazia	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Curacao	-	-	80	-	-	-	-	-	-	-	0.000%	0.000%
Danimarca	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Ecuador	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Etiopia	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Finlandia	-	-	92	-	-	-	-	2	-	2	0.000%	0.000%
Francia	2,859	-	2,590	-	-	-	223	-	-	223	0.000%	0.000%
Georgia	3	-	20	-	-	-	-	-	-	-	0.000%	0.000%
Germania	498	-	28,447	-	-	-	37	55	-	92	0.000%	0.000%
Ghana	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Giappone	52	-	6	-	-	-	-	-	-	1	0.000%	0.000%
Grecia	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Hong Kong	39	-	-	-	-	-	-	-	-	-	0.000%	0.000%
India	142	-	-	-	-	-	2	-	-	2	0.000%	0.000%
Irlanda	589	-	5,192	-	-	-	47	-	-	47	0.000%	0.000%
Isole Cayman	-	-	823	-	-	-	-	-	-	-	0.000%	0.000%
Isole di Man	-	-	22	-	-	-	-	-	-	-	0.000%	0.000%
Isole Vergini Britanniche	-	-	3	-	-	-	-	-	-	-	0.000%	0.000%
Israele	3	-	14	-	-	-	-	-	-	-	0.000%	0.000%
Italia	2,570,230	-	470,619	-	-	-	77,886	73	-	77,959	0.000%	0.000%
Jersey	-	-	1,495	-	-	-	-	-	-	-	0.000%	0.000%
Kenya	148	-	-	-	-	-	2	-	-	2	0.000%	0.000%
Liberia	-	-	12	-	-	-	-	-	-	-	0.000%	0.000%
Lituania	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Lussemburgo	38,623	-	3,374	-	-	-	3,090	4	-	3,094	0.000%	0.000%
Malaysia	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Malta	19	-	80	-	-	-	1	-	-	1	0.000%	0.000%
Messico	3	-	66	-	-	-	-	2	-	2	0.000%	0.000%
Nigeria	-	-	5	-	-	-	-	-	-	-	0.000%	0.000%
Norvegia	-	-	6	-	-	-	-	1	-	1	0.000%	0.000%
Olanda	422	-	35,549	-	-	-	34	2	-	35	0.000%	0.000%
Panama	7	-	21	-	-	-	-	-	-	-	0.000%	0.000%
Polonia	18	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Portogallo	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Principato di Monaco	8	-	64	-	-	-	-	-	-	-	0.000%	0.000%
Regno Unito	7,492	-	1,110	-	-	-	595	1	-	596	0.000%	0.000%
Repubblica Domenicana	21	-	800	-	-	-	-	-	-	-	0.000%	0.000%
Romania	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Russia	387	-	48	-	-	-	22	-	-	22	0.000%	0.000%
San Marino	86	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Serbia	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Singapore	120	-	114	-	-	-	2	-	-	2	0.000%	0.000%
Spagna	1,308	-	945	-	-	-	22	1	-	23	0.000%	0.000%
St. Vincent e Grenadine	-	-	20	-	-	-	-	-	-	-	0.000%	0.000%
Stati Uniti d'America	4,481	-	187,726	-	-	-	357	210	-	567	0.000%	0.000%
Sud Africa	10	-	1,179	-	-	-	-	-	-	-	0.000%	0.000%
Svezia	195	-	12	-	-	-	2	1	-	3	0.000%	0.000%
Svizzera	429	-	195	-	-	-	8	1	-	9	0.000%	0.000%
Thailandia	106	-	26	-	-	-	1	-	-	1	0.000%	0.000%
Tunisia	32	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Turchia	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Ucraina	1	-	1,041	-	-	-	-	-	-	-	0.000%	0.000%
Ungheria	13	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Uruguai	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Venezuela	266	-	-	-	-	-	16	-	-	16	0.000%	0.000%
TOTAL	**2,629,909**	**-**	**742,492**	**-**	**-**	**-**	**82,406**	**364**	**-**	**82,772**		

(Amounts in € thousand)

Credit risk adjustments

Definitions of impaired exposures

According to Bank of Italy regulations, set out in Circular no. 272 of July 30, 2008 as amended, impaired exposures, i.e. those with the characteristics mentioned in paragraphs 58-62 of IAS 39, correspond to the Non-Performing Exposures aggregate referred to in the EBA ITS.

Specifically, the EBA has identified Non-Performing exposures as those that satisfy either or both of the following criteria:

- material exposures which are more than 90 days past due;
- exposures for which the Bank has assessed that the debtor is unlikely to pay its credit obligations, without the enforcement and realisation of collateral, regardless of the existence of any past due and/or overdrawn impaired exposures or of the number of days past due.

Based on the Bank of Italy Circular 272, impaired assets are classified into the following categories:

- **non-performing loans** – formally impaired loans, being exposure to insolvent borrowers, even if the insolvency has not been recognised in a court of law, or borrowers in a similar situation (including by verifying statistically and automatically defined coverage levels for certain loan portfolios below a predefined threshold) or, for individually insignificant amounts, on a flat basis by type of homogeneous exposures;

- **unlikely to pay** - on- and off-balance sheet exposures which do not meet the borrower's condition for classification as non-performing loans and for which, in the absence of actions such as the enforcement of collateral, the debtor's ability to fully meet its credit obligations (principal and/or interest) is assessed as unlikely. This assessment is made independently of any past due and unpaid amount (or instalment).

  The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked to indicators of a potential default of the borrower. The "unlikely to pay" exposures are measured individually (including by verifying statistically defined coverage levels for some loan portfolios below a predefined threshold) or by applying a percentage on a flat basis by type of homogeneous exposures;
- **past due and/or overdrawn impaired exposures -** on-balance sheet exposures, other than those classified as non-performing or unlikely to pay that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures may be determined, alternatively, with respect to the individual debtor or the individual transaction. Specifically, they represent the total exposure to any borrower not included in the "unlikely to pay" categories, which at the balance-sheet date has expired facilities or unauthorised overdrafts that are more than 90 days past due and meet the requirements set out by supervisory regulations for their classification under the "past due exposures" category (TSA banks).

  Past-due and/or overdrawn impaired exposures are valued at a flat rate on a historical/stochastic basis by applying where available the risk rating referred to Loss Given Default (LGD) under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms.

  The Bank assesses past due and/or overdrawn impaired exposures with respect to the individual debtor. Total exposure is recognised in this category if, at the reporting date, either of the following amounts, whichever is larger, is equal to or more than 5%:

  - the expired/overdrawn portion out of the entire exposure as at the reporting date and

- the average of the past-due and/or overdrawn portions out of the entire exposure, as measured daily in the last preceding quarter.

The EBA standards also introduced the definition of forborne exposures, i.e. exposures in respect of which forbearance measures have been extended, consisting of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments (“financial difficulties”).
Forbearance is defined by the EBA standards as:

- a modification of the previous terms and conditions of a contract the debtor is considered unable to comply with due to its financial difficulties ("troubled debt") to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties;
- a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

Forborne exposures may be classified in the impaired loans category (non-performing, unlikely to pay, impaired past due and overdrawn) or as performing loans. The accounting policies regarding provisions and assessments of forborne exposures are in accordance with the general principle set out by IAS 39, with the clarifications given above regarding renegotiated loans classified as unlikely to pay.

Description of the methods used to determine impairment losses

Loans and receivables with banks and with customers are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised on the date of contract signing, which normally coincides with the date of disbursement to the borrower. These items include debt instruments with the above characteristics (including the primary component of structured instruments after the embedded derivative has been unbundled) or that are subject to portfolio reclassification in accordance with the rules of IAS 39.

After initial recognition at fair value, which is usually the price paid including transaction costs and income directly attributable to the acquisition or issuance of the financial asset (even if not yet paid), a loan or receivable is measured at amortised cost, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process.

A gain or loss on loans and receivables is recognised in profit or loss:

- when a loan or receivable is written off, in item 100.a) “Gains (losses) on disposal”;

or

- when a loan or receivable is impaired (or written back after an impairment), in item 130.a) “Net value adjustments for impairment of receivables”.

Loans and receivables are reviewed in order to identify those that, following events occurring after initial recognition, show objective evidence of possible impairment. These impaired loans are reviewed and analysed periodically at least once a year.

A loan or receivable is deemed impaired when it is considered that it will probably not be possible to recover all the amounts due according to the contractual terms, or equivalent value.
Allowances for impairment of loans and receivables are based on the present value of expected cash flows of principal and interest; in determining the present value of future cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the discount rate used.
In particular, the amount of the loss on impaired exposures classified as non-performing and unlikely to pay according to the categories specified above, is the difference between the carrying value and the present value of estimated cash flows discounted at the original interest rate of the financial asset. If the original interest rate is not readily found, or if finding it would be excessively onerous, the best approximation is used.
For all fixed-rate positions, the rate determined in this manner was also held constant in future years, while for variable-rate positions the interest rate is updated in relation to the variable-rate component, keeping the original spread constant.
Recovery times are estimated on the basis of any repayment schedules agreed with the borrower or included in a business plan or in forecasts based on historical recovery experience observed for similar classes of loans, taking into account the type of loan, the geographical location, the type of security and any other factors considered relevant.
Any subsequent change with respect to initial expectations of the amount or timing of expected cash flows of principal and interest causes a change in allowances for impairment and is recognised in profit or loss in item 130. (a)"Impairment losses on loans and receivables".
Value adjustments of impaired loans are classified as specific in the relevant income statement item even when the calculation is flat-rate or statistical.
When the reasons for the impairment no longer exist, and this assessment is objectively attributable to an event such as an improvement in the debtor's credit worthiness occurred after the impairment, a reversal is made in the same profit or loss item, within the amount of the amortised cost that there would have been if there had been no impairments.
Derecognition of a loan or receivable in its entirety is made when the loan or receivable is deemed to be irrecoverable or is written off. Write-offs are recognised directly in profit or loss under item 130.a) "Impairment losses on loans and receivables" and reduce the amount of the principal of the loan or receivable. Reversals of all or part of amounts previously written off are recognised in the same item.

The collective assessment of performing loans is used for groups of loans for which individually there are no indicators of impairment: to these portfolios a latent impairment can be attributed, according to the method described below, inter alia on the basis of the risk factors used under CRR prudential regulation. Each loan with similar characteristics in terms of credit risk - in relation to loan type, the borrower's sector of economic activity, geographical location, type of security or other relevant factors - is assessed in terms of its PD (Probability of Default) and LGD (Loss Given Default); these are uniform for each class of loan.
The methods used combine the CRR prudential regulation recommendations and IFRS. The latter exclude future loan losses not yet sustained, but include losses already sustained even if they were not manifest at the time of measurement, on the basis of past experience of losses on assets having a similar risk profile to the assets being measured.
The parameter for the average period from deterioration of a borrower's financial condition and its classification as an impaired loan is the Loss Confirmation Period.

The portfolio valuation is the product of the risk factors derived from the parameters used under CRR prudential regulation requirements, with a one-year time horizon, and the above loss confirmation periods (LCP) expressed as part of a year and diversified according to classes of loans and receivables on the basis of customer segments/portfolios characteristics. The Bank assumes the loss confirmation period as equal to a maximum of 12 months, at which existing accounting provisions and expected losses are equivalent.

If these indicators are not available, estimated value and standard loss percentages, based on internal historical series and sectoral studies, shall be used.

Classification of exposures in risk categories

The classification into different risk categories is made according to the guidelines of the EBA standards (Implementing Technical Standards - Implementing Regulation (EU) no. 680/2014 of the European Commission) and Bank of Italy Circular 272.

On and off-balance sheet exposures to banks

Exposure type / Accounting portfolio	Amounts as at December 31, 2016											
	On-balance sheet exposures										Off-balance sheet exposures	
	Financial Assets held for trading		Financial assets measured at fair value		Available-for-sale financial assets		Held to maturity		Receivables from banks			
	Gross exposure	Average exposure	Gross exposure	Average exposure	Gross exposure	Average exposure	Gross exposure	Average exposure	Gross exposure	Average exposure	Gross exposure	Average exposure
A. On-balance sheet exposures												
a) Non-performing loans	X	X	-	-	-	-	-	-	-	-	X	X
- of which: forborne exposures	X	X	-	-	-	-	-	-	-	-	X	X
b) Unlikely to pay	X	X	-	-	-	-	-	-	-	-	X	X
- of which: forborne exposures	X	X	-	-	-	-	-	-	-	-	X	X
c) Past-due impaired loans	X	X	-	-	-	-	-	-	-	-	X	X
- of which: forborne exposures	X	X	-	-	-	-	-	-	-	-	X	X
d) Past-due unimpaired loans	X	X	-	-	-	-	-	-	-	-	X	X
- of which: forborne exposures	X	X	-	-	-	-	-	-	-	-	X	X
e) Other exposures	38	38	-	-	-	-	-	-	15,735,540	15,192,222	X	X
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-	X	X
TOTAL A	**38**	**38**	**-**	**-**	**-**	**-**	**-**	**-**	**15,735,540**	**15,192,222**		
B. "Off-balance sheet" exposures												
a) Impaired	X	X	X	X	X	X	X	X	X	X	-	-
b) Other	X	X	X	X	X	X	X	X	X	X	1,306,957	840,393
TOTAL B											**1,306,957**	**840,393**
TOTAL A+B December 31, 2016	**38**	**38**	**-**	**-**	**-**	**-**	**-**	**-**	**15,735,540**	**15,192,222**	**1,306,957**	**840,393**

(Amounts in € thousand)

On and off-balance sheet exposures to customers

Exposure type / Accounting portfolio	Amounts as at December 31, 2016											
	On-balance sheet exposures										Off-balance sheet exposures	
	Financial Assets held for trading		Financial assets measured at fair value		Available-for-sale financial assets		Held to maturity		Receivables from customers			
	Gross exposure	Average exposure	Gross exposure	Average exposure	Gross exposure	Average exposure	Gross exposure	Average exposure	Gross exposure	Average exposure	Gross exposure	Average exposure
A. On-balance sheet exposures												
a) Non-performing loans	X	X	-	-	-	-	-	-	19,334	20,577	X	X
- of which: forborne exposures	X	X	-	-	-	-	-	-	121	85	X	X
b) Unlikely to pay	X	X	-	-	-	-	-	-	1,906	2,044	X	X
- of which: forborne exposures	X	X	-	-	-	-	-	-	127	168	X	X
c) Past-due impaired loans	X	X	-	-	-	-	-	-	1,131	1,163	X	X
- of which: forborne exposures	X	X	-	-	-	-	-	-	10	30	X	X
d) Past-due unimpaired loans	X	X	-	-	-	-	-	-	9,980	17,890	X	X
- of which: forborne exposures	X	X	-	-	-	-	-	-	41	64	X	X
e) Other exposures	7	7	-	-	1,316,221	1,775,858	2,437,777	1,218,889	1,012,657	956,625	X	X
- of which: forborne exposures	-	-	-	-	-	-	-	-	124	88	X	X
TOTAL A	**7**	**7**	**-**	**-**	**1,316,221**	**1,775,858**	**2,437,777**	**1,218,889**	**1,045,008**	**998,299**		
B. "Off-balance sheet" exposures												
a) Impaired	X	X	X	X	X	X	X	X	X	X	-	-
b) Other	X	X	X	X	X	X	X	X	X	X	345,348	382,097
TOTAL B											**345,348**	**382,097**
TOTAL A+B December 31, 2016	**7**	**7**	**-**	**-**	**1,316,221**	**1,775,858**	**2,437,777**	**1,218,889**	**1,045,008**	**998,299**	**345,348**	**382,097**

(Amounts in € thousand)

Distribution of on and off-balance sheet exposures to banks by geographical area

The tables below exclude the exposures connected with counterparty risk relative to securities lending and borrowing.

Exposure/Geographical area	ITALY			OTHER EUROPEAN COUNTRIES			USA			ASIA			REST OF THE WORLD		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
A. On-balance sheet exposures															
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Past-due impaired loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired loans	15,726,338	-	15,726,338	9,234	-	9,234	-	-	-	-	-	-	5	-	5
TOTAL	**15,726,338**	**-**	**15,726,338**	**9,234**	**-**	**9,234**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**-**	**5**
B. "Off-balance sheet" exposures															
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired loans	1,274,080	-	1,274,080	842	-	842	-	-	-	-	-	-	-	-	-
TOTAL	**1,274,080**	**-**	**1,274,080**	**842**	**-**	**842**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL December 31, 2016	**17,000,418**	**-**	**17,000,418**	**10,076**	**-**	**10,076**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**-**	**5**

(Amounts in € thousand)

Exposure/Geographical area	NORTHWEST ITALY			NORTH-EAST ITALY			CENTRAL ITALY			SOUTHERN ITALY AND ISLANDS		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
A. On-balance sheet exposures												
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Past-due impaired loans	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	29,863	-	29,863	-	-	-	15,696,475	-	15,696,475	-	-	-
TOTAL	**29,863**	**-**	**29,863**	**-**	**-**	**-**	**15,696,475**	**-**	**15,696,475**	**-**	**-**	**-**
B. "Off-balance sheet" exposures												
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired loans	-	-	-	10	-	10	1,274,070	-	1,274,070	-	-	-
TOTAL	**-**	**-**	**-**	**10**	**-**	**10**	**1,274,070**	**-**	**1,274,070**	**-**	**-**	**-**
TOTAL December 31, 2016	**29,863**	**-**	**29,863**	**10**	**-**	**10**	**16,970,545**	**-**	**16,970,545**	**-**	**-**	**-**

(Amounts in € thousand)

Distribution of on and off-balance sheet exposures to customers by geographical area

The tables below exclude the exposures connected with counterparty risk relative to securities lending and borrowing.

Exposure/Geographical area	ITALY			OTHER EUROPEAN COUNTRIES			USA			ASIA			REST OF THE WORLD		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
A. On-balance sheet exposures															
A.1 Non-performing loans	19,333	(16,671)	2,662	1	(1)	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	1,906	(1,507)	399	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Past-due impaired loans	1,122	(528)	594	8	(4)	4	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	3,446,986	(9,494)	3,437,492	1,254,329	(2)	1,254,327	75,098	(2)	75,096	137	-	137	92	-	92
TOTAL	**3,469,347**	**(28,200)**	**3,441,147**	**1,254,338**	**(7)**	**1,254,331**	**75,098**	**(2)**	**75,096**	**137**	**-**	**137**	**92**	**-**	**92**
B. "Off-balance sheet" exposures															
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired loans	36,511	-	36,511	3,239	-	3,239	102	-	102	-	-	-	17	-	17
TOTAL	**36,511**	**-**	**36,511**	**3,239**	**-**	**3,239**	**102**	**-**	**102**	**-**	**-**	**-**	**17**	**-**	**17**
TOTAL December 31, 2016	**3,505,858**	**(28,200)**	**3,477,658**	**1,257,577**	**(7)**	**1,257,570**	**75,200**	**(2)**	**75,198**	**137**	**-**	**137**	**109**	**-**	**109**

(Amounts in € thousand)

Exposure/Geographical area	NORTH-WEST ITALY			NORTH-EAST ITALY			CENTRAL ITALY			SOUTHERN ITALY AND ISLANDS		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
A. On-balance sheet exposures												
A.1 Non-performing loans	5,501	(4,809)	692	3,105	(2,764)	341	3,622	(3,082)	540	7,105	(6,016)	1,089
A.2 Unlikely to pay	1,118	(952)	166	120	(85)	35	187	(131)	56	481	(339)	142
A.3 Past-due impaired loans	317	(143)	174	92	(43)	49	322	(151)	171	391	(192)	199
A.4 Unimpaired loans	336,697	(3,303)	333,394	128,043	(1,149)	126,894	2,748,265	(2,952)	2,745,313	233,981	(2,091)	231,890
TOTAL	**343,633**	**(9,207)**	**334,426**	**131,360**	**(4,041)**	**127,319**	**2,752,396**	**(6,316)**	**2,746,080**	**241,958**	**(8,638)**	**233,320**
B. "Off-balance sheet" exposures												
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired loans	10,816	-	10,816	5,538	-	5,538	15,658	-	15,658	4,500	-	4,500
TOTAL	**10,816**	**-**	**10,816**	**5,538**	**-**	**5,538**	**15,658**	**-**	**15,658**	**4,500**	**-**	**4,500**
TOTAL December 31, 2016	**354,449**	**(9,207)**	**345,242**	**136,898**	**(4,041)**	**132,857**	**2,768,054**	**(6,316)**	**2,761,738**	**246,458**	**(8,638)**	**237,820**

(Amounts in € thousand)

Distribution of on and off-balance sheet exposures to customers by sector

Exposures / Counterparties	Governments			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other entities		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
A. On-balance sheet exposures																		
A.1 Non-performing loans	-	-	-	-	-	-	49	(43)	6	-	-	-	103	(92)	11	19,184	(16,538)	2,646
- of which: forborne exposures	-	-	-	-	-	-	2	(2)	-	-	-	-	-	-	-	119	(101)	18
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-	-	-	21	(15)	6	1,885	(1,492)	393
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	128	(88)	40
A.3 Past-due impaired loans	4	(2)	2	-	-	-	2	-	2	-	-	-	17	(9)	8	1,108	(522)	586
- of which: forborne exposures	-	-	-	-	-	-	2	-	2	-	-	-	-	-	-	8	(4)	4
A.4 Unimpaired exposures	3,754,004	-	3,754,004	-	-	-	98,888	(144)	98,744	12,174	-	12,174	18,155	(3,489)	14,666	893,419	(5,863)	887,556
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	165	(1)	164
TOTAL A	3,754,008	(2)	3,754,006	-	-	-	98,939	(187)	98,752	12,174	-	12,174	18,296	(3,605)	14,691	915,596	(24,415)	891,181
B. “Off-balance sheet” exposures																		
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	167	-	167	-	-	-	3,353	-	3,353	-	-	-	464	-	464	35,885	-	35,885
TOTAL B	167	-	167	-	-	-	3,353	-	3,353	-	-	-	464	-	464	35,885	-	35,885
TOTAL (A + B) December 31, 2016	**3,754,175**	**(2)**	**3,754,173**	**-**	**-**	**-**	**102,292**	**(187)**	**102,105**	**12,174**	**-**	**12,174**	**18,760**	**(3,605)**	**15,155**	**951,481**	**(24,415)**	**927,066**

(Amounts in € thousand)

Breakdown by contractual residual maturity of financial assets and liabilities

Item/Time brackets	*On demand*	*Between 1 day and 7 days*	*Between 7 days and 15 days*	*Between 15 days and 1 month*	*Between 1 month and 3 month*	*Between 3 months and 6 months*	*Between 6 months and 1 year*	*Between 1 year and 5 years*	*Over 5 years*	*Indefinite duration*
On-balance sheet assets										
A.1 Government securities	-	-	-	13,163	8,172	35,266	383,178	2,343,894	720,004	-
A.2 Debt securities	-	2,908	4,641	389,641	31,815	474,811	1,152,306	6,889,772	3,277,436	-
A.3 UCITS units	1	-	-	-	-	-	-	-	-	-
A.4 Loans										
- Banks	2,391,638	1,545	172,004	1,958	619,946	320,815	53	-	-	172,461
- Customers	323,270	41,261	231,444	78,084	84,532	32,066	55,933	173,403	14,803	-
On-balance sheet liabilities										
B.1 Deposits and current accounts										
- Banks	52,309	-	-	-	-	-	-	-	-	-
- Customers	18,320,371	10,327	14,115	36,987	78,766	4,395	5,243	8,951	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	88,162	26,472	161,605	6,255	621,803	320,847	155,937	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions	-	234,330	323	-	2,889	-	-	89	1,902	558
- short positions	-	234,498	321	-	-	-	-	89	4,790	560
C.2 Financial derivatives without exchange of capital										
- long positions	3,009	940	-	94	4,134	5,183	8,359	-	-	-
- short positions	582	-	-	-	-	5,775	5,531	-	-	-
C.3 Deposits and loans to be collected										
- long positions	-	17,344	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	17,344	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- long positions	-	-	-	-	-	20,763	123	243	-	-
- short positions	-	20,887	-	243	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

(Amounts in € thousand)

On-balance sheet exposures to customers: gross change in impaired exposures

Source/Categories	*Non-performing loans*	*Unlikely to pay*	*Past-due loans*
A. Opening balance gross exposure	**21,819**	**2,181**	**1,195**
of which: assets sold but not derecognised	-	-	-
B. Increases	**3,506**	**4,002**	**5,871**
B.1 transfers from performing exposures	111	319	5,144
B.2 transfers from other categories of impaired exposures	2,963	3,290	-
B.3 other increases	432	393	727
C. Decreases	**(5,991)**	**(4,277)**	**(5,936)**
C.1 transfers to performing exposures	-	(206)	(825)
C.2 de-recognitions	(4,848)	(56)	(1)
C.3 collections	(1,142)	(979)	(1,701)
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposures	-	(2,955)	(3,298)
C.7 other decreases	(1)	(81)	(111)
D. Gross exposure closing balance	**19,334**	**1,906**	**1,130**
of which: assets sold but not derecognised	-	-	-

(Amounts in € thousand)

On-balance sheet exposures to customers: breakdown of gross forborne exposures by credit quality

Source/Categories	*Forborne exposures: exposures*	*Forborne exposures: exposures*
A. Opening balance gross exposure	**305**	**138**
of which: assets sold but not derecognised	-	-
B. Increases	**585**	**199**
B.1 transfers from performing exposures not forborne	116	121
B.2 transfers from performing forborne exposures	41	X
B.3 transfers from impaired forborne exposures	X	37
B.4 other increases	428	41
C. Decreases	**(632)**	**(173)**
C.1 transfers to performing exposures not forborne	X	-
B.2 transfers to performing forborne exposures	(191)	X
C.3 transfers to impaired forborne exposures	X	(46)
C.4 de-recognitions	(1)	-
C.5 collections	(206)	(127)
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	(234)	-
D. Gross exposure closing balance	**258**	**164**
of which: assets sold but not derecognised	-	-

(Amounts in € thousand)

On-balance sheet exposures to customers: trend in total write-downs

Source/Categories	*Non-performing loans*		*Unlikely to pay*		*Past-due impaired loans*	
	Total	*Of which: forborne exposures*	*Total*	*Of which: forborne exposures*	*Total*	*Of which: forborne exposures*
A. Total opening impairment	**(18,319)**	**(41)**	**(1,387)**	**(149)**	**(612)**	**(17)**
of which: assets sold but not derecognised	-	-	-	-	-	-
B. Increases	**(4,085)**	**(82)**	**(1,127)**	**(68)**	**(505)**	**(8)**
B.1 impairment losses	(3,240)	(14)	(1,071)	(43)	(501)	(4)
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of impaired exposures	(826)	(68)	(35)	(4)	-	-
B.4 other increases	(19)	-	(21)	(21)	(4)	(4)
C. Decreases	**5,732**	**20**	**1,007**	**129**	**584**	**21**
C.1 write-backs from assessments	300	5	242	14	99	-
C.2 write-backs from recoveries	584	14	153	64	155	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 de-recognitions	4,848	1	56	-	1	-
C.5 transfers to other categories of impaired exposures	-	-	535	51	325	21
C.6 other decreases	-	-	21	-	4	-
D. Total final adjustments	**(16,672)**	**(103)**	**(1,507)**	**(88)**	**(533)**	**(4)**
of which: assets sold but not derecognised	-	-	-	-	-	-

(Amounts in € thousand)

The impaired on-balance sheet exposures shown above refer exclusively to receivables from customers.

There is no figure to report regarding the trend of overall value adjustments, the trend in impaired exposures and the forborne exposures with banks.

Remuneration and incentive systems and practices

Qualitative Information

2. Governance & Compliance

2.1 Remuneration and Appointments Committee

The Remuneration and Appointments Committee, established by the Board of Directors' resolution on May 13th, 2014, performs a strategic role in supporting Board of Directors' oversight of FinecoBank Compensation Policy and plans design.

According to the internal provisions approved by the Board of Directors, ruling the functioning and competencies of corporate bodies and related information flows (hereinafter the "Corporate Governance Rules"), this Committee is composed by 3 non-executive members, Mr. Gianluigi Bertolli, Mrs. Mariangela Grosoli and Mr. Girolamo Ielo, who met the independence requirements set out in Article 3.C.1 of the Corporate Governance Code and also Article 147 (4) and 148 (3) of the TUF and have adequate knowledge and experience in finance or accounting topics.

The Chairman, Mr. Gianluigi Bertolli, has presided the Committee's meetings during 2016.

In performing its duties and if important and suitable, also availing itself with the support of an external consultant, The Remuneration and Appointments Committee:

A. provides opinions to the Board of Directors - on the proposals formulated, as appropriate, by the Chairman of the Board or by the Chief Executive Officer and General Manager - concerning:
   - the definition of Policies for appointing the Company's directors (including the qualitative- quantitative characteristics required by the Supervisory Regulations of the Bank of Italy);
   - the appointment of the Chief Executive Officer and/or the General Manager and the other Executives with strategic responsibilities;
   - the definition of any succession plans for the Chief Executive Officer, for the General Manager and for the other Executives with strategic responsibilities;
   - the identification of FinecoBank Director candidates in the event of co-optation, and of independent Director candidates to be submitted for approval by the Company Shareholders' Meeting, taking into account any reports received from Shareholders;
   - the appointment of members of the Committees established within the Board of Directors, upon the proposal of the Chairman;
   - the various phases of self-evaluation process of the Board of Directors.

B. presents proposals to the Board for the definition of a general remuneration policy for the Chief Executive Officer and General Manager, for the other Executives with strategic responsibilities, and for the other *Identified Staff* – also so that the Board is able to prepare the Annual Compensation Report to be presented to the Shareholders' Meeting on an annual basis, and to periodically assess the suitability, overall consistency and effective application of the general remuneration policy approved by the Board;

C. presents proposals to the Board relating to the total remuneration of the Chief Executive Officer, of the General Manager, of the other Executives with strategic responsibilities, and of the other *Identified Staff* and for the determination of criteria for the remuneration of Company top Management, including the relevant performance targets related to the variable component of the remuneration;
D. monitors the implementation of the decisions adopted by the Board and verifies, in particular, the achievement of the performance targets;
E. examines any share-based or cash incentive plans for employees and PFAs of the Company, and strategic staff development policies;
F. supports the Audit and Related Parties Committee in the process of identification and proposal for the Heads of Company Control Functions to be appointed;
G. supports the Board in verifying the conditions provided by section 26 (requirements of company Directors) of the Legislative Decree dated September 1st 1993 n. 385 and subsequent amendments and integration (providing the TUB).

In 2016 the Remuneration and Appointments Committee met 13 times. The meetings had an average duration of two hours. From the beginning of 2017 and until the approval of the present 2017 Compensation Policy, 3 meetings of the Committee have been held this year. Minutes are taken of each meeting and placed on record by the Secretary designated by Committee itself.

From the approval of “Corporate Goverance Rules” , the Chairman of the Committee provided time by time the information on the Committee meetings to the subsequent Board meeting.

From December 2014 on the Committee, by means of its budget assigned for the year (amounting to 25.000€ for 2016), has started a collaboration with an external advisor - whose independence has been previously verified - who is invited to the Committee’s meeting when required.

The Committee may, when it deems it appropriate, invite other individuals from within the Company to attend the meetings, in relation to the corporate functions and organizations concerned by the issues at hand, including members of other committees within the Board of Directors, or external parties. The Committee shall meet when convened by its Chairman, whenever he/she deems necessary, or upon the request of one of its members. In any case the Committee has always been able to access the information and the Company Functions necessary to perform its activities.

In 2016 the Head of *Human Resources* has been always invited to Committee’s meetings. The Chairman has also invited the Head of *Legal & Corporate Affairs* to introduce Coporate Governance topics (see for instance the results of the Board of Directors’ self-evaluation process or the appointment of a new Director) and the Head of *Network Controls, Monitoring and Service Department* for topics related to PFA network (see for instance the Incentive Systems and related rules for the PFA population). In addition to the aforementioned Functions, the Chairman invited - to specific Committee’s meetings and for topics in the respective competence perimeters – the CRO, CFO and Compliance Officer of FinecoBank. In particular the CRO and CFO participated in the meetings regarding the 2016 Incentive Systems evaluation while the Compliance Officer has been invited, among the others, to participate in the discussions related to the Identified Staff definition.

The Chairman has also invited the *Internal Audit*[1] function to the meeting related to the annual audit performed on FinecoBank remuneration policies and practices.

During 2016 the key activities of the Remuneration and Appointments Committee included:

[1] Internal Audit function is centralized in UniCredit and works based on a specific service contract.

KEY ACTIVITIES OF THE COMMITTEE IN 2016	
January	▪ 2016 Identified Staff and 2016 Incentive System for Employees Identified Staff and 2016 Incentive System for PFA Identified Staff ▪ FinecoBank *Compliance Officer* appointment ▪ Evaluation of regulatory requirements for Directors ▪ "Annual Corporate Governance Report" (for the topics within Committee's competence) ▪ 2015 Bonus Pool ▪ Execution of 2015 Incentive System and 2015 individual bonus for Employees Identified Staff ▪ stock granting plan "2014-2017 Top Management Plan" and "2014 Key People Plan" execution for the Employees and update of related Rules ▪ "2015 Incentive Plans" and "Additional Future Program" execution for the PFA and Managers of the Network and update of related Rules ▪ 2016 Incentive Systems for the Managers and PFA of the Network and related new Rules
March	▪ 2016 Compensation Policy, including the Annual Report and the Audit Report ▪ 2016 Incentive System Rules for the Employees Identified Staff ▪ 2016 Incentive System Rules for the PFA Identified Staff ▪ Integration to the execution of "Additional Future Program" plan for PFA and Managers of the Network
April	▪ Prorogation of the plan "Iniziativa Riqualificazione Prodotti Risparmio Gestito" for the PFA and Managers of the Network
June	▪ Developement and succession plans
July	▪ New initiative "Riqualificazione Amministrato e Liquidità in Guided Products" ▪ Board self evaluation
September	▪ Prorogation of "Nuova Iniziativa Riqualificazione Amministrato e Liquidità in *Guided Products"*
November	▪ Appointment of Ms. Manuela D'Onofrio to Director ▪ Initiative "Riqualificazione Amministrato e Liquidità in Guided Products". New edition ▪ Verification of regulatory requirement of the new Director Ms. Manuela D'Onofrio

The main topics discussed by the Committee are also submitted to the attention of the Board of Statutory Auditors, in advance over their submission to the Board of Directors.

Moreover, at least a member of the Board of Statutory Auditors, attended to the meetings of the Committee in 2016.

We highlight that the Directors do not participate in the Committee meetings in which are made the proposals to the Board concerning their remuneration.

The following table summarizes the composition of the Committee in 2016 and, in addition to the information on the independency of the members, provides details regarding their attendance to the meetings that have been called during the year.

REMUNERATION AND APPOINTMENTS COMMITTEE – (YEAR 01/01/2016 – 31/12/2016)						
Office	Name	Indipendency according to		*	**	***
		Code	TUF			
Members currently in office						
Chairman	Gianluigi Bertolli	Yes	Yes	C	13	100%
Director	Mariangela Grosoli	Yes	Yes	M	13	92%
Director	Girolamo Ielo	Yes	Yes	M	13	100%

Notes

(*) In this column is pointed out the office covered in the Committee (C=Chairman; M=Member)

(**) In this column is pointed out the number of meetings attended during the period when the office has been covered

(***) In this column is pointed out the percentage of attending to Committee's meetings (no. of participation / no. of meetings taken during the effective period when the office has been covered)

2.2 The Role of Company Control Functions: Compliance, Risk Management and Audit

Key contributions in 2016 of FinecoBank *Compliance* function, for all aspects that fall within its perimeter and in collaboration with *Group Compliance*, included:

- validation of the 2016 Compensation Policy submitted to the Board of Directors for subsequent approval of the Shareholders' Meeting on April 12th, 2016;
- validation of the 2016 Incentive System for employees of FinecoBank belonging to *Identified Staff*;
- validation of the 2016 Incentive System for Financial Advisors of FinecoBank belonging to *Identified Staff*;
- preparation – in collaboration with the *Human Resources* function – and distribution of FinecoBank guidelines for the development and management of incentive systems for the population not belonging to *Identified Staff* (ref. *FinecoBank Internal Regulation 07/2016*);
- participation in specific initiatives of *Human Resources* function (e.g.: review of definition of *Identified Staff* for the application of Incentive System).

As per Board decision in April 2016, the Compliance Function - previously outsourced in UniCredit – has been internalized in FinecoBank

In 2017, the *Compliance* function will continue to operate in close co-ordination with the *Human Resources* function to support not only in the validation but also in the design and definition of compensation policy and processes.

The link between compensation and risk has been maintained in 2016 with the involvement of the *Risk Management* function in compensation design and the definition of an explicit framework to base remuneration within an overarching FinecoBank *Risk Appetite Framework*, which is consistent with Group *Risk Appetite Framework*, so that incentives to take risk are appropriately constrained by incentives to manage risk. In particular, the Board of Directors and Remuneration and Appointments Committee draw upon the input of involved functions to define the link between profitability, risk and reward within FinecoBank incentive systems.

Internal Audit Report on the 2016 FinecoBank remuneration policies and practices

Internal Audit Function has carried out the annual assessment on the Bank's compensation system pursuant to Bank of Italy regulation.

Besides, the evaluation process for the definition of Identified Staff was verified with the aim to check its compliance with the requirements provided for by Delegated Regulation (EU) No 604/2014.
The annual audit results have been submitted to the attention of the Remuneration and Appointments Committee on March 1st 2017.
The audit tests have been performed on a sample of population which includes the following groups within FinecoBank compensation policy:
1. all the Identified Staff;
2. a sample of 211 employees non-Identified Staff (the so called “below executives”), selected considering the roles to whom a bonus higher than € 5.000 has been granted in 2016 (20% ca of the overall population as on 31/12/2016);
3. Members of Corporate Bodies;
4. Bank’s Financial Advisors, with specific focus on categories of “non recurring” remuneration named “bonus raccolta netta” and “additional future program”, equal to the 67% ca of 2016 total incentives.
The annual audit scrutiny outcome was satisfactory, on the basis of the correct application of bonus definition mechanisms, as provided by the Bank’s Compensation Policy, with particular reference to the 2:1 limit for the ratio between variable and fixed pay (1/3 of fixed pay for the Company Control Functions).
As regards the Network, the process provided the inclusion in the Identified Staff of the Financial Advisors with a total remuneration, recurring and non-recurring, higher than Euro 750.000, as well as of the Managers coordinating Financial Advisors managing assets equal or higher than 5% of overall network assets, on the basis of quantitative criteria defined in the UE Regulation and of a qualitative criterion based on business risk (reduction of Bank’s profitability as a consequence of Advisors leaving and the subsequent loss of customers’ portfolios).
The Bank evaluation performed with the aim of excluding from the Identified Staff category roles with total compensation between Euro 500.000 and 750.000, subject to communication to ECB, is consistent with the internal accounting figures and with the risk profiles of Personal Financial Advisors activities.

3. Continuous Monitoring of Market Trends and Practices

Key highlights of the Compensation Policy defined this year with the support of external benchmarking and trends analysis provided by the independent external advisor to the Remuneration and Appointments Committee include:

- the definition of Compensation Policy for the *Identified* Staff, both employees and Financial Advisors, with particular reference to the design of the 2017 incentive systems
- the pay recommendations based on specific benchmarking analysis versus our defined peer group to inform any decision.

The peer group used to benchmark compensation policy and practice with particular reference to employees *Identified Staff* has been defined by the Remuneration and Appointments Committee upon proposal of the independent external advisor on the basis of criteria including: comparability of size, complexity and business model, presence in customer, talent and capital markets, risk and legal-socio-economic environment.
The peer group is subject to annual review to assure its continuing relevance. For 2017 it has been defined a national peer group that includes:

- Banca Generali and Generali Investments Europe SGR
- Mediolanum Group
- Azimut

- Banca Popolare Vicenza (to be considered in case of merge with Veneto Banca)
- BNL
- BPER
- Credem
- Banco BPM
- Generali Group
- Mediobanca Group (CheBanca and Banca Esperia)
- Monte Paschi di Siena
- Intesa San Paolo
- UBI Banca
- Veneto Banca (to be considered in case of merge with Banca Popolare di Vicenza)
- Carige

In addition to what mentioned above, for the Chief Executive Officer and General Manager and for the Executives with strategic responsibilities it will be realized a benchmark also with European market, based on a sample of European Banks.

4. Compensation paid to Members of the Administrative and Auditing Bodies, to General Managers and to other Executives with strategic responsibilities

The remuneration for members of the administrative and auditing Bodies of FinecoBank is represented only by a fix component, determined on the basis of the importance of the position and the time required for the performance of the tasks assigned.

This policy applies to non-Executive Directors and to the Supervisory Body members that are not employees of FinecoBank or other Legal Entities of UniCredit Group, as well as to Statutory Auditors.

The compensation paid to non-Executive Directors, to the Supervisory Body members and to the Statutory Auditors is not linked to the economic results achieved by FinecoBank and none of them take part in any incentive plans based on stock options or, generally, based on financial instruments.

BENEFICIARY	REMUNERATION COMPONENT	APPROVED BY	AMOUNT (€)	REMARKS
Non-Executive Directors	Only fixed compensation	Shareholders' Meeting and Board of Directors of April 15th, 2014	Compensation for each year of activity: ▪ € 330.000 for the Board of Directors[1] ▪ € 50.000 for Board Committees ▪ € 20.000 for the Chairman of the Supervisory Board[2] ▪ € 300 as attendance fee for partecipating to each meeting of[3]: - Board of Directors - Board Committees	The compensation is determined on the basis of the importance of the position and the time required for the performance of the tasks assigned
		Board of Directors of April 15th, 2014 , persuant to sect. 2389 of the Civil Code par. 3 and Articles of Association, heard the opinion of Statutory Auditors	▪ € 200.000 for each year of activity, split between: - Board Chairman - Board Vice Chairman	
Statutory Auditors	Only fixed compensation	Shareholders' Meeting of April 15th, 2014	Compensation for each year of activity[4]: ▪ € 50.000 for the Chairman of Board of Statutory Auditors ▪ € 40.000 for each Standing Auditor ▪ € 300 as attendance fee for partecipating to each meeting of the Board of Directors[3]	
Executives with strategic responsabilities[5]	Fixed and variable compensation	Board of Directors	2016 Compensation level: ▪ € 850.000 fixed + € 561.000 variable for the CEO and GM ▪ € 1.648.000 fixed + € 982.060 bonuses for the other 5 Executives with strategic responsabilities	Fixed and variable remuneration components of the CEO/GM and of the other Executives with strategic responsabilities are balanced, through the ex-ante definition of the maximum ratio between variable and fixed remuneration component.

[1] Total compensation for the entire Board of Directors (Executive Directors included) approved by the Shareholders' Meeting is equal to Eur 370.000. On November 8,2016 Board of Directors approved the Office of a non executive member of the Board of Directors instead of an executive one.
[2] With the resolution of the Board of Directors on February 8, has been nominated as Chairman Corporate Governance 231/2001 an external member persuant of the new Unicredit guidelines related to the update "modello di organizzazione, gestione e controllo ex D. Lgs. 231/2001".
[3] Even if these meetings held in the same day.
[4] Alternate Auditors do not receive any compensation unless they are actually asked to join the Board of Statutory Auditors in substitution of a standing member.
[5] The Board of Directors has identified as "Executives with strategic responsabilities" – to the ends of the application of all statutory and regulatory instructions – the Chief Executive Officer and General Manager, the Deputy General Manager and Head of Global Banking Services, the Deputy General Manager and Head of Global Business,the Head of Commercial PFA Network, the Head of Investment Services and Private Banking as well as the Chief Financial Officer.

Further details on compensation of Executives with strategic responsibilities

For 2016, according to our Compensation Policy, in line with regulatory provisions, it has been defined *ex-ante* the maximum ratio between variable and fix component of the compensation both for the Chief Executive Officer and General Manager (the sole executive director sitting on the Board of Directors and employee of the Company) and for the other Executives with strategic responsibilities.

The balance between variable and fixed components has been defined considering also the Company's strategic goals, risk management policies and other elements influencing firm's business.

With reference to the above table, for Executives with strategic responsibilities it is specified that:

- the fix component is defined taking into opportune consideration market information and in such a way to be sufficient to reward the activity rendered even if the variable part of the remuneration package were not paid due to non-achievement of performance goals;
- in line with the latest regulatory requirements, the Chief Executive Officer and General Manager – as well as the Executives with strategic responsibilities – have a balanced part of their remuneration linked to the overall profitability of FinecoBank and the Group, weighted by risk and cost of capital, as well as sustainability goals (based on capital and liquidity ratios) of FinecoBank and the Group.

The variable compensation considers the achievement of specific goals which are previously approved by the Board of Directors upon proposal of the Remuneration and Appointments Committee and having informed the Board of the Statutory Auditors.

In particular, *ex-ante* defined specific metrics that reflect categories of our FinecoBank *Risk Appetite Framework*, which is consistent with *Group Risk Appetite Framework*, align the remuneration of the Chief Executive Officer and General Manager and of the others Executives with strategic responsibilities to sustainable performance and value creation for the shareholders in a medium / long term perspective. Specific individual goals are set out taking into consideration the market practices and the role assigned within the Bank, through the systematic use of specific indicators aimed at strengthening the sustainability of business, such as, for example, risk and financial sustainability indicators and profitability measures[2]. More information regarding our performance management and evaluation are provided further in chapter 5.3.1.

It is also foreseen the deferral in cash and shares of minimum 60% of the incentive. All the instalments are subject to the application of *malus* and/or claw-back conditions, if legally enforceable. 2016 Incentive System provides for 50% of the annual incentive to be deferred and paid in the five following years through the granting of Fineco shares. The number of such shares is set at the beginning of the deferring period, thus creating a link between the evolution of the share price and the actual value of the incentive*. More information regarding the 2016 incentive plan implementation and outcomes are provided further in chapter 5.2.*

The Chief Executive Officer and General Manager, on top of 2015 Incentive System, benefits also from:

- *“2012 Group Incentive System – Executive Vice President”*
- *“2013 Group Incentive System – Executive Vice President & Above”*
- *“2014 Group Incentive System – Executive Vice President & Above”*
- *“2015 Group Incentive System – Executive Vice President & Above”*
- *“2014-2017 Multi-year Plan Top Management”*

More information regarding the plans above mentioned are provided further in chapters 6 and 7.

The measure and duration of the deferral are aligned with the provisions set by regulators and are consistent with the characteristics of the business and with the Company’s risk profiles.

For the Heads of the Company Control Functions the goals, pursuant to the provisions of Bank of Italy, are established by the Board of Directors in line with the tasks assigned to them and avoiding, unless good reasons exist, goals connected to the Bank’s performance.

Indemnities to directors in the event of resignations, dismissal or termination of employment following a public purchase offer (as per section 123/bis, paragraph 1, letter i), of TUF)

None of the Directors have contracts containing clauses envisaging the payment of indemnities, or the right to keep post-retirement benefits, in the event of resignations or dismissal / revocation without just cause or if the employment relationship is terminated following a public purchase offer. In case of early termination of the mandate, the ordinary law provisions would therefore apply.

The individual employment, as Executive, of the Chief Executive Officer and General Manager, Mr. Alessandro Foti, is today governed - also with regards to the event of resignations, dismissal / revocation or termination - by the ordinary provisions of the law and National Labor Agreement for Banking Industry Executives dated July 13, 2015. In such context, the annual remuneration used to define the possible indemnity due in the above mentioned instances would include the fix remuneration, any other continuative compensation and the average of the variable pay (inclusive of the components paid in equity - such as for example free shares, restricted shares, performance shares - with the only

[2] Since the CFO- included in the Executives with Strategic Responsibilities - cover salso the activities related to the Finacial Statements – the individual goals are defined in coherence with the assigned tasks

exclusion of the valorisation of the stock options potentially assigned within long-term incentive plans) received in the last three years prior to the termination. The actual amount of such indemnity – in terms of months of compensation considered – is then bound to vary depending on the events which led to the termination and on the relationship's duration and is anyway subjected to provisions of the "Termination Payments Policy" of FinecoBank approved by Shareholders' Meeting.

Non-executive Directors do not receive, within incentive plans, stock options or others equities. For the Chief Executive Officer and General Manager no specific provisions are provided with reference to the right to keep, in case of termination, the options received and the plans' provisions apply.

For none of the Directors currently in office, provisions exist regarding the establishment of advisory contracts for a term following the termination of the directorship, nor the right to keep post retirement perks. No agreements exist either providing compensation for non-competition undertakings.

5. Compensation Systems

5.1 Target population

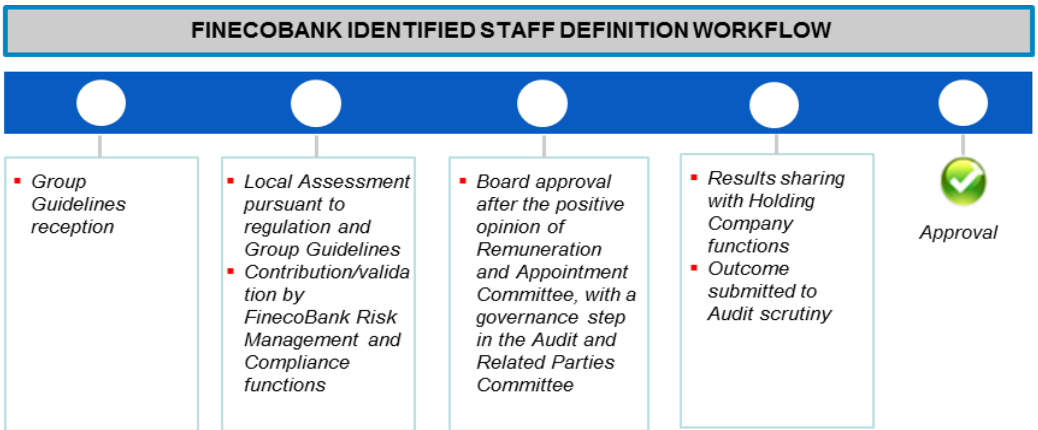
FinecoBank, starting from 2014 conducted, in alignment with specific regulation, the annual self-evaluation process to define *Identified Staff* population, both employees and Financial Advisors, to whom, according to regulators, specific remuneration rules apply

The identification of 2017 *Identified Staff*, pursuant to the European criteria foreseen in the *European Banking Authority Regulatory Technical Standard* (RTS)[3], followed a structured and formalized assessment process both at Group and local level, based on the guidelines provided by the Group functions *Human Resources* with the contribution of *Risk Management* and *Compliance*, to guarantee a unique and common approach at Group level.

The recognition of subjects with significant impact on risk, further to be finalized to the definition of Bank's Identified Staff, is subject to the consolidation activity performed By the Holding Company, for the definition of Group Identified Staff.

This is valid, in particular for the Employees, while the PFAs are not included in the consolidation perimeter, as considered Identified Staff just at a Bank level[4].

As every year, the assessment performed took into account the role, the decision-making power, the effective responsibilities of the employees and of the Financial Advisors and, in addition, the total compensation level.



[3] *European Banking Authority* (EBA) *Regulatory Technical Standards* on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94 (2) of Directive 2013/36/EU.

[4] The qualification of Group Identified Staff or local Identified Staff does not prejudice the application of all the criteria defined by the regulation for the Identified Staff remuneration.

The result of the assessment process, submitted to Internal Audit scrutiny and documented into FinecoBank Compensation Policy, brought to the identification of a total number of 14 employees and 7 Financial Advisors for 2017[5].

Regarding the employees, as a result of the analysis and as approved by the Board of Directors upon Remuneration and Appointments Committee proposal, the following categories of employees have been defined for 2017 as *Identified Staff*: Chief Executive Officer and General Manager, Executives with strategic responsibilities, executive positions in Company Control Functions (*Compliance*, *Risk Management* and *Human Resources*) and other positions that are responsible at local level for strategic decisions which may have a relevant impact on the Bank's risk profile. Compensation data and vehicles used for the target population in 2016 are disclosed in chapters 6 and 7.

Regarding the Financial Advisors, FinecoBank has applied a qualitative criteria to select those belonging to *Identified Staff*, on the basis of their impact on business risk (represented by the risk that the Bank's profitability decreases consequently to the exit of Advisors from the Network and the related loss of customers and assets), the only type of risk that the Bank considers attributable to PFA, due to the absence of power of attorney they have to assume any other kind of risks.

As a result of the analysis and as approved by the Board of Directors upon Remuneration and Appointments Committee proposal, the following categories of employees have been identified for 2017 as *Identified Staff*:

- for the single PFA the criteria above mentioned has been applied selecting those Advisors who have a total yearly compensation higher/equal to Euro 750,000;
- for PFA who have a managerial role have been selected Managers that coordinate Advisors with a total asset higher/equal to 5% of the total asset of the PFA Network.

Pursuant to the regulatory requirement and the process defined at EU level[6] the exclusion from Identified Staff of 8 PFA whose total remuneration in 2016 is equal or exceeds € 500.000 has been submitted to the European Central Bank and to Bank of Italy.

5.2 Implementation and Outcomes of 2016 Incentive Systems

5.2.1 2016 Incentive System for employees belonging to Identified Staff

The 2016 Incentive System, approved by FinecoBank Board of Directors on January 12th, 2016, provides - in total continuity with 2015 System - for a "*bonus pool*" approach which directly links bonuses with Company results at Group and local level, ensuring the link between profitability, risk and reward.

The System, implemented within the framework of our policy and governance, provides for the allocation of a performance related bonus in cash and/or free ordinary shares over maximum 6 years.

Bonus pool sizing

The bonus pool dimension is related to the actual profitability measure multiplied for the percentage of the bonus pool funding rate defined in the budgeting phase.

This calculation determines the so called "theoretical bonus pool", that, during the year of performance, has been adjusted based on the effective performance trend.

[5] *Identified Staff* data refers to the population at the date of February 2017, providing for an *ex-ante* definition, in line with regulatory requirements.

[6] ECB Decision (EU) 2015/2218 dated November 20th 2015; EBA RTS chapter 4, §4

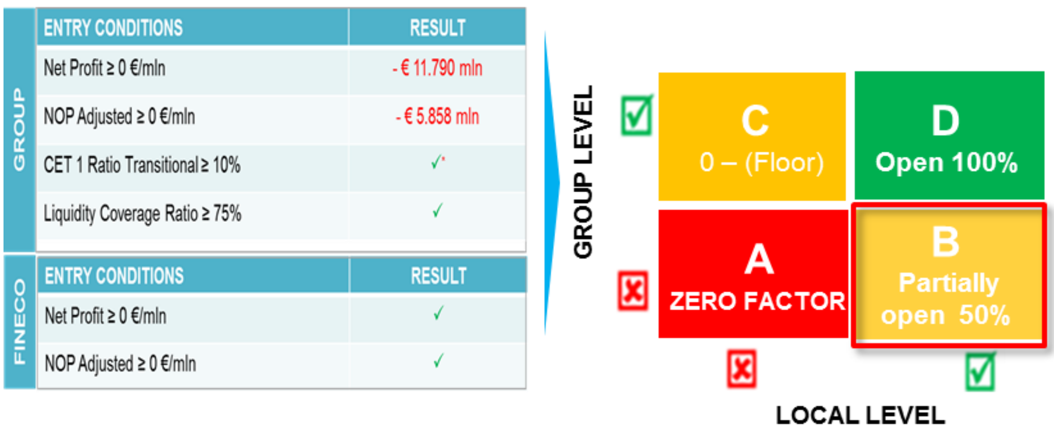
2016 Entry conditions at Group and local level

In order to align to regulatory requirements, specific indicators measuring annual profitability, solidity and liquidity results had been set both local and Group level as Entry Conditions. In particular, risk metrics and thresholds for 2016 Incentive System as defined within the Entry Conditions that confirm, reduce or cancel upfront and deferred pay-outs include:

Group level	Local level
Net Operating Profit adjusted ≥ 0 and	Net Operating Profit adjusted ≥ 0 and
Net Profit ≥ 0 and	Net Profit ≥ 0
Common Equity Tier 1 ratio transitional ≥ 10% and	
Liquidity Coverage Ratio ≥ 75%	

- **Net Operating Profit adjusted** to measure the profitability, is the NOP excluding income from buy-back of own debt and from the fair value accounting of own liabilities.
- **Net Profit** to measure profitability considering the results stated in the balance sheet excluding any extraordinary item as considered appropriate by the Board of Directors upon Remuneration and Appointments Committee proposal.
- **Common Equity Tier 1 Ratio Transitional** to measure the bank's solidity in terms of highest quality common equity introduced by Basel 3, consistent with regulatory limits and conservation buffers.
- **Liquidity Coverage Ratio:** guarantees the maintenance of an adequate level of "high quality liquid assets" non binding in appropriate amount to cover the "net cash outflows" within 30 calendar days in a high stress scenario defined by the Authorities.

According to the actual results, verified and approved by the Board of Directors of FinecoBank on February 7th, 2017, the relevant entry conditions have been achieved only at a local level, while at Group Level not all the relevant thresholds for the relevant KPIs have been achieved. In the "matrix" scheme – as provided by the Group Incentive System and shown below – the theoretical[7] FinecoBank bonus pool for Employees has been initially reduced by 50%.



** in the 2016 Financial Statement is reported a CET1 Ratio Transitional equal to 8,15%. Including the capital increase effects, the value at December 2016 would be 11,49%. Il CET 1 fully loaded would be 11,15%.*

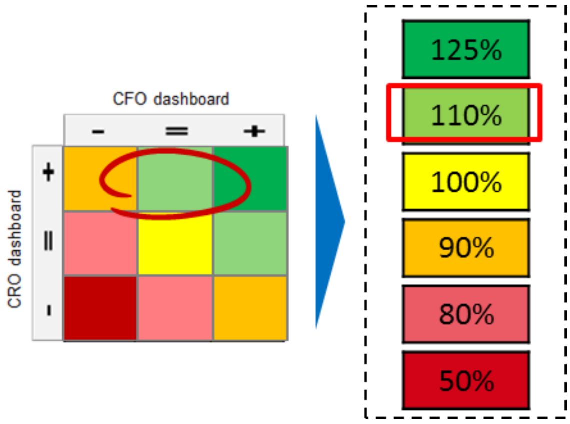
[7] Calculated applying the funding rate percentage to the profitability results

Risk & Financial sustainability and additional discretion of Remuneration and Appointments Committee and Board of Directors

After the verification of the Entry Conditions, the actual bonus pool for FinecoBank Employees had been adjusted within respective ranges, based on the assessment of the overall financial and risk sustainability evaluated by CRO & CFO dashboards including respectively:

- risk indicators linked to local *RAF (Risk Appetite Framework)*, to evaluate risk sustainability
- performance indicators connected with the Multi-Year Strategic Plan, to evaluate the financial sustainability.

The results of CRO and CFO dashboard for the 2016 performance period are shown below



As provided by the Incentive System, to the theoretical Bonus Pool, initially reduced by 50%, has been applied the "multiplier" effect of CRO and CFO dashboard by 110%.

In the Remuneration and Appointments Committee and Board of Directors meetings, has been requested to apply the further discretion of 20% - as provided by the Incentive System Rules – considering the actual business results achieved by Fineco in 2016[8]. The final Bonus Pool resulted in the 66% of the theoretical Bonus Pool.

$$\boxed{(50\%*110\%) + 20\% = 66\%}$$

Evaluation and pay-out for Identified Staff

In line with FinecoBank governance, 2016 evaluations and pay-outs for Chief Executive Officer and General Manager, Deputy General Managers, other Executives with strategic responsibilities and other *Identified Staff* have been approved by the Board of Directors, based on the positive opinion of Remuneration and Appointments Committee

The Board of Directors of FinecoBank on February 7th, 2017, has approved the allocation of a total number of shares equal to 152.034 to be assigned in 2019, 2020, 2021 and 2022.

Focus on the performance evaluation of the CEO and General Manager

The Board of Directors, upon positive opinion of Remuneration and Appointments committee, assessed the 2016 performance of FinecoBank CEO and General Manager as *Exceeds Expectations.* Below the details of the individual scorecard assessment.

[8] PBT +8% ca. vs budget; Net Profit + 13% ca. vs. budget; Net Sales + 31% ca. vs budget

GOAL	RESULT	ASSESSMENT: Below	Almost meets	Meets	Exceeds	Greatly exceeds
Net Sales *vs. budget*	*Net Sales above budget* (Bdg € 3,85 bln / Act: € 5 bln)					▼
Net Profit *vs. budget*	*Net Profit above budget* *(Bdg € 188,2 mln / Act € 211,8 mln)*					▼
Net growth of number of clients *vs. budget*	*More than 11.800 new clients vs. budget (+13% y/y)* *(Bdg: 1.106.033/ Act: 1.117.876)*				▼	
Stakeholder Value: Customer satisfaction (TRI*M external); People Engagement, Reputation *vs target*	*1)TRI*M and People Engagement Indexes remain within the excellence range (TRI*M index at 94% / People Engagement Indez at 83%)* *2)Reputation: Best website of 2016; Global Finance Award 2016 (Best digital bank, Best online deposit); Global Brands Magazine 2016 (Most innovative financial brand in Italy, best financial brand in Italy, Most innovative financial Advisory brand in Italy)*				▼	
Operational Risk Management *vs qualitative assessment considering:* *•# Incidents* *•Losses* *•Launch of mitigation actions*	*1)Successful prevention and management of ICT incidents (small number of incidents , the largest part with low severity level)* *2)The operational losses significantly decrease comparing with 2015* *3)System of Fraud Identification & Analysis (SoFIA) has been object of further improvements and Operational Risk culture has been strengthened through governance initiatives and Permanent Work Groups ongoing oversight.*					▼
Execution of Strategic Plan *vs qualitative assessment with a specific focus on:* *•Loan business volume increase* *•Net sales of guided products*	*Net Sales of Guided Products in line with the budget, while Loan Business Volume is almost in line with target and increasing in respect of 2015.*			▼		
Tone from the top on conduct and compliance culture, also coherent with FSB guidelines *vs qualitative assessment considering:* *•Initiatives aimed at promoting staff integrity towards internal/external conduct principles* *•The overall status of findings or proceedings in place (internal or external) considering the trend, typology, severity and the timely completion of the related remediation actions*	*1) Tone from the top initiatives have been launched in order to strengthen compliance culture within the bank, such as discussions in Bank's Committees and direct communications to the employees via intranet website highlighting the importance of compliance culture.* *2) Decreasing trend of the overall internal Audit findings and no critical findings in place. Overall evaluation of Internal Control System confirmed satisfactory.*				▼	

Considering the performance assessment and the results of the KPIs in the Entry Conditions, the Board of Directors approved for the CEO and General Manager a bonus amounting to Euro 561.000 related to 2016 performance, towards a "cap" for the short term variable pay amounting to Euro 850.000, thus with an actual reduction by 34%, fully representative of the reduction at pool level.

5.2.2 2016 Incentive System for Financial Advisors belonging to Identified Staff

The 2016 Incentive System PFA, approved by FinecoBank Board of Directors on January 12th 2016, takes into consideration all the national and international regulatory requirements for the sales networks incentives and directly links bonuses with the objectives of growth in the medium and long term, in a general framework of overall sustainability. In the same way as for the Employees, the 2016 PFA System is based on a Bonus Pool approach which directly links bonuses with Company results at Group and local level, ensuring the link between profitability, risk and reward.

The System, implemented within the framework of our policy and governance, provides for the allocation of a performance related bonus in cash and/or shares over 5 years.

Bonus pool sizing

The bonus pool dimension is related to the actual profitability measure multiplied for the percentage of the bonus pool funding rate defined in the budgeting phase.

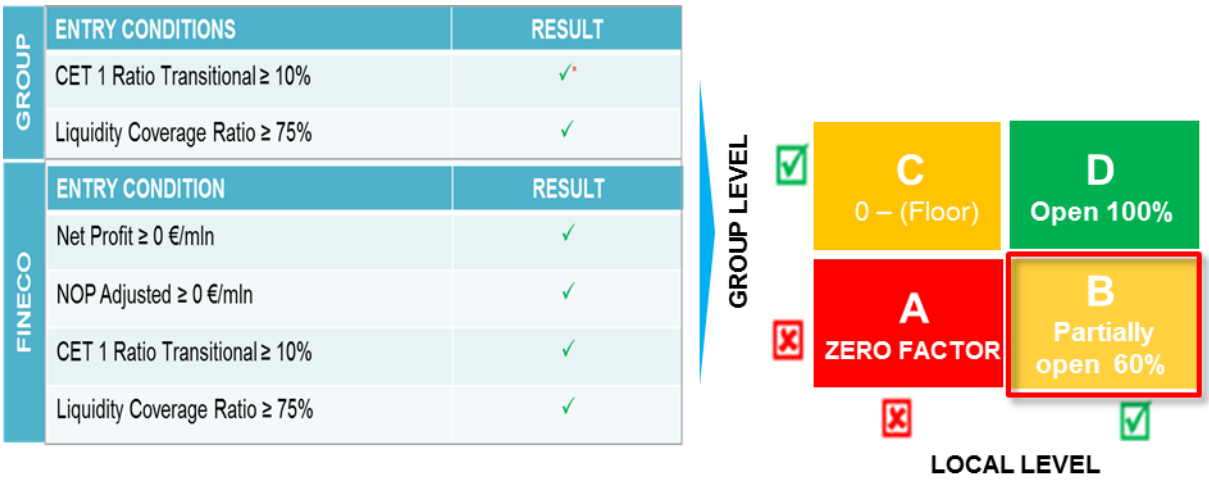
This calculation determines the so called "theoretical bonus pool", that, during the year of performance, has been adjusted based on the effective performance trend.

2016 Entry conditions at Group and local level

In order to align to regulatory requirements, specific indicators measuring annual profitability, solidity and liquidity results had been set both local and Group level as Entry Conditions. In particular, risk metrics and thresholds for 2016 PFA Incentive System as defined within the Entry Conditions that confirm, reduce or cancel upfront and deferred pay-outs include:

Group Level	Local Level
	Net Operating Profit adjusted ≥ 0 and
	Net Profit ≥ 0 and
Common Equity Tier 1 ratio transitional ≥ 10% and	Common Equity Tier 1 ratio transitional ≥ 10% and
Liquidity Coverage Ratio ≥ 75%	Liquidity Coverage Ratio ≥ 75%

According to the actual results, verified and approved by the Board of Directors of FinecoBank on February 7th 2017, the relevant entry conditions have been achieved only at a local level, while at Group Level not all the relevant thresholds for the relevant KPIs have been achieved. In the "matrix" scheme – as provided by 2016 PFA Incentive System and shown below – the theoretical[9] FinecoBank PFA bonus pool has been initially reduced by 40%.



**. in the 2016 Financial Statement is reported a CET1 Ratio Transitional equal to 8,15%. Including the capital increase effects, the value at December 2016 would be 11,49%. Il CET 1 fully loaded would be 11,15%.*

[9] Calculated applying the funding rate percentage to the profitability results

Risk & Financial sustainability and additional discretion of Remuneration and Appointments Committee and Board of Directors

After the verification of the Entry Conditions, the actual bonus pool for FinecoBank Employees had been adjusted within respective ranges, based on the assessment of the overall financial and risk sustainability evaluated by CRO & CFO dashboards including respectively:

- risk indicators linked to local *RAF (Risk Appetite Framework)*, to evaluate risk sustainability
- performance indicators connected with the Multi-Year Strategic Plan, to evaluate the financial sustainability.

The results of CRO and CFO dashboard for the 2016 performance period are shown below

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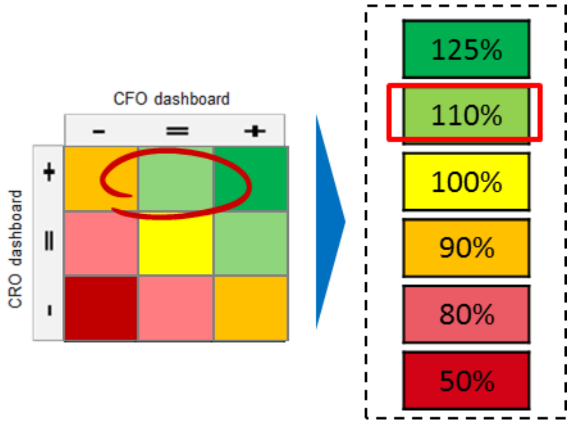


As provided by the Incentive System, to the theoretical Bonus Pool, initially reduced by 40%, has been applied the "multiplier" effect of CRO and CFO dashboard by 110%.

In the Remuneration and Appointments Committee and Board of Directors meetings, has been requested to apply the further discretion of 20% - as provided by the Incentive System Rules – considering the actual business results achieved by Fineco in 2016[10]. The final Bonus Pool for FinecoBank PFA resulted in the 79% of the theoretical Bonus Pool.

$$\boxed{(60\%*110\%) + 20\% = 79\%}$$

Evaluation and pay-out for Identified Staff

In line with FinecoBank governance, 2016 evaluations and pay-outs for PFA *Identified Staff* have been approved by the Board of Directors, based on the positive opinion of Remuneration and Appointments Committee.

The Board of Directors of FinecoBank on February 7th, 2017, has approved the allocation of a total number of shares equal to 57.740 to be assigned in 2019, 2020 and 2021.

5.3 2017 Incentive System for employees belonging to Identified Staff

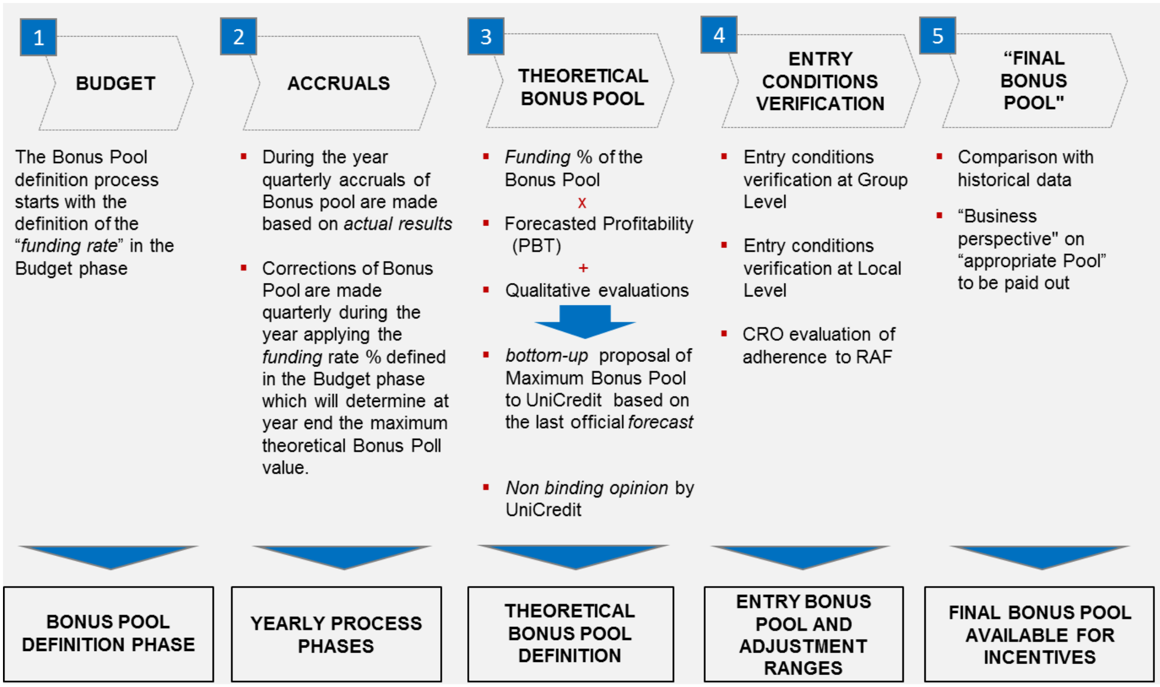
As in the past years, the 2017 Incentive System, as approved by the Board of Directors of FinecoBank on January 9th, 2017, is based on a "*bonus pool*" approach which takes into consideration the national and international regulatory requirements and directly links bonuses with Company results at Group and local level, ensuring the link between profitability, risk and reward.

[10] PBT +8% ca. vs budget; Net Profit + 13% ca. vs. budget; Net Sales + 31% ca. vs budget

In particular, the system provides for:

- allocation of a variable incentive defined on the basis of the determined bonus pool, of the individual performance appraisal and of the internal benchmarking on similar roles as well as compliant with the ratio between fixed and variable remuneration approved by the Shareholder's Meeting;
- definition of a balanced structure of "upfront" (following the moment of performance evaluation) and "deferred" payments, in cash and/or in shares, to be paid over a period of up to maximum 6 years;
- distributions of share payments which take into account the applicable regulatory requirements regarding the application of share retention periods. In fact the payment structure defined requires a retention period on shares (of 2 years for upfront shares and of 1 year for deferred shares);
- risk adjusted measures in order to guarantee long-term sustainability, regarding Company financial position and to ensure compliance with regulations;
- a *malus* clause (Zero Factor) which applies in case specific thresholds (profitability, capital and liquidity) are not met at both Group and local level. In particular, the bonus pool of 2017 will be zeroed, while previous systems deferrals could be reduced from 50% to 100% of their value, based on final effective results.

The bonus pool process includes the following steps:



BUDGET

- Il processo di definizione del *bonus pool* inizia con la definizione del "*funding rate*" durante la fase del Bonus pool process starts with the definition of the "funding rate" during budgeting phase. The funding rate for FinecoBank is a percentage of the Net Operating Profit (net of Provisions for Risk and Charges, corresponding to Profit Before Tax) considering: historical data analysis, expected profitability, business strategy and previous year pool. The bonus pool is submitted for approval to the Board of Directors of FinecoBank.

ACCRUALS

- During the year of performance, quarterly accruals are based on the actual results;
- on a quarterly basis bonus pool is adjusted applying the % of *funding rate* fixed during budgeting phase that set by the end of the year the maximum theoretical bonus pool.

THEORETICAL BONUS POOL, ENTRY CONDITIONS VERIFICATION AND RISK ADJUSTMENT

- Consistency with FinecoBank performance and sustainability is ensured through specific “Entry Conditions” set at both Group and local level;
- application of a *malus* clause in case specific profitability, liquidity and capital thresholds are not reached at Group and local level;
- the distribution is risk adjusted in order to guarantee sustainability with respect to FinecoBank *Risk Appetite Framework*;
- the bonus pool is proposed by FinecoBank on the basis of the year forecast – risk-adjusted – both at Group and local level.

The Entry Conditions are the mechanism that determines the possible application of *malus* clause (Zero Factor) on the basis of performance indicators in terms of profitability, capital and liquidity defined at both Group and local level. The entry conditions provided for 2017 are:

Group level	Local level
Net Operating Profit adjusted ≥ 0 and	*Net Operating Profit adjusted ≥ 0 and*
Net Profit ≥ 0 and	*Net Profit ≥ 0 and*
Common Equity Tier 1 Ratio Transitional ≥ 10,25% and NEW	*Common Equity Tier 1 Ratio Transitional ≥ 10,25% and* NEW
Liquidity Coverage Ratio ≥ 100% and NEW	*Liquidity Coverage Ratio ≥ 100%* NEW
Net Stable Funding Ratio ≥ 100% NEW	

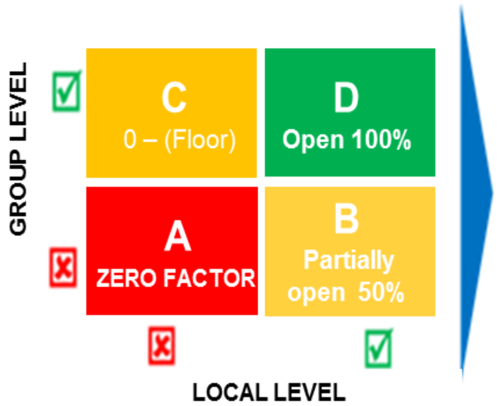
In particular, KPIs (or related thresholds) that have been subject to modification or added in respect of 2016 System.

To this regard - at FinecoBank level – have been added Capital and Liquidity indicators, mirroring those at Group Level.

The thresholds for said indicators have been increased in respect of last year (the CET 1 is brought form a threshold of 10% to a threshold of 10,25%, while the Liquidity Coverage Ratio is brought from 75% to a threshold of 100%).

At Group Level a further liquidity KPI has been added – the Net Stable Funding Ratio – representing the ratio between the available amount of stable funding and the required amount of stable funding.

The Entry Conditions matrix and related effects on Fineco Bonus Pool follows the same logics provided in 2016, as shown below:



A. In case the Entry Conditions are not met both at Group and Local level, a Zero Factor is determined for the Identified Staff, while for the rest of population a portion of pool could be kept for retention purposes or to guarantee the competition on the market

B. In case the Entry Conditions are not met at Group Level, it is possible to have a pool at local level, if results are achieved, considering also the multiplier effect and the discretion of Remuneration and Appointments Committee and Board.

C. In case the Entry Conditions are not met at Local Level, but are met at Group Level, a minimum pool ("floor") for retention purposes can be set up.

D. In case the Entry Conditions are met both at Group and Local Level, the bonus pool can be confirmed or increased, with the possibility to award the extra performance, considering – also in this case – the multiplier effect and the discretion of Remuneration and Appointments Committee and Board.

In the "matrix" logic, in the hypotheses described in the boxes A and B (Entry Conditions not met at Group Level) the bonus for the CEO and General Manager of FinecoBank is zeroed.

To activate the "multiplier" the crossed outcome of CRO and CFO dashboard are not considered anymore, but only the CRO dashboard is taken into account.

This choice for 2017, made also at Group Level, has the aim to avoid overlappings and to simplify the process, and takes also into account the fact that the Risk Appetite Framework already includes sustainability indicators.

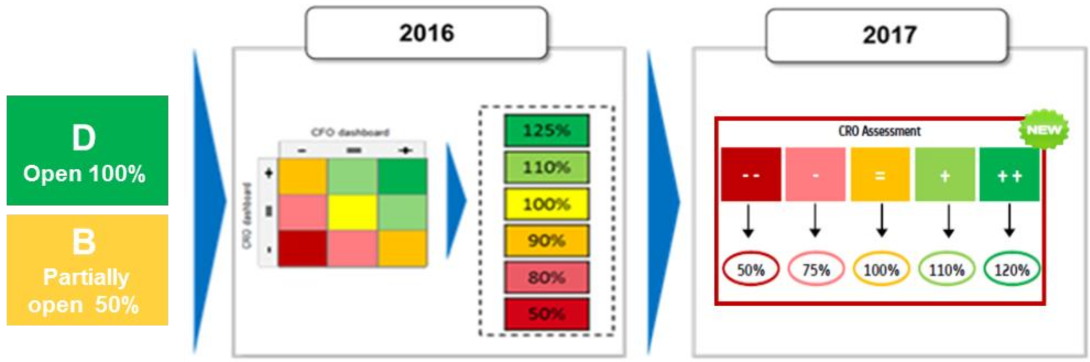
The CRO dashboard (defined in coherence with the FinecoBank and Group Risk Appetite Framework) includes KPIs related to all relevant risks, among which the cost of capital and several risks such as credit, market and liquidity, measured with reference to the respective relevant thresholds (*limit*, *trigger* and *target*). Here below a sample of the content of the dashboard.

SAMPLE

Pillar 1 KPIs		KPI	RAF Th...		
			Target	Trigger	Limit
Pillar 1 KPIs	Capital	CET1 Ratio (%)	...	...	...
	Liquidity	LCR (%)	...	...	...
		NSFR (%)	...	...	...
Managerial KPIs	Risk & Return	ROAC (%)	...	...	...
	Credit	EL stock (%)	...	...	...
		EL new business (%)	...	...	...
		Coverage on Impaired (%)	...	...	...
Specific Risks KPIs	Financial Risks	EV Sensitivity (%)	...	...	...
	Operational	Op. Losses/ Operating Income (%)	...	...	...

The "multiplier" effect deriving from the evaluation of overall CRO dashboard outcome made by the FinecoBank CRO – and verified by the FinecoBank Remuneration and Appointments Committee and by the FinecoBank Board – applies to the bonus pool in the cases described in the boxes D and B.

Compared to 2016 Incentive System, the multiplier ranges are slightly different, as shown below.



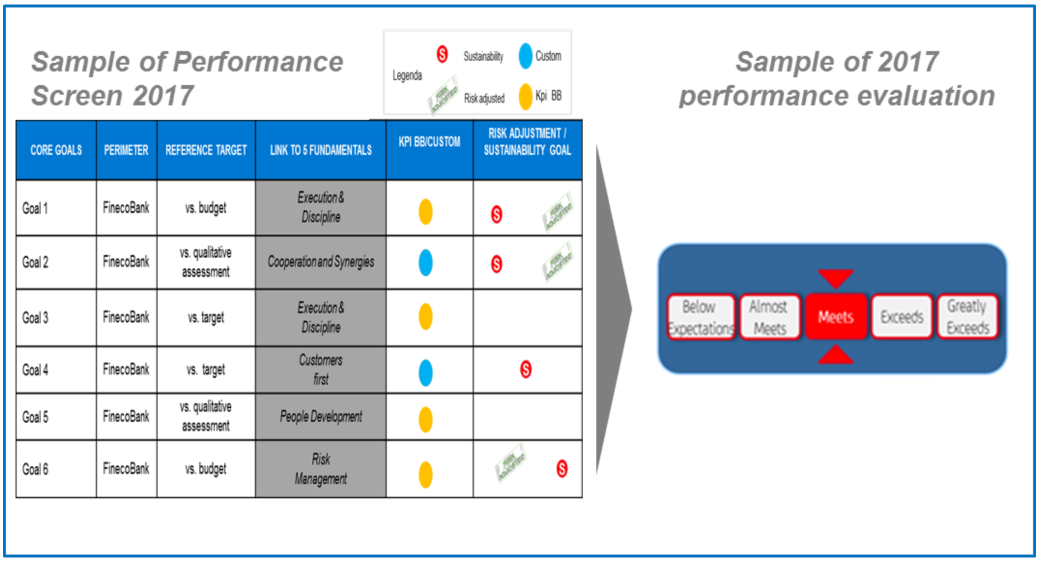
As provided in the 2016 System, a further range of discretion up to +20% is in the faculty of Remuneration and Appointments Committee and Board of Directors, while no limits to downward discretionally the bonus pool with respect to theoretical value is foreseen.

In any case, as requested by regulations as per Bank of Italy provisions, the final evaluation of sustainable performance parameters and the alignment between risk and remuneration will be assessed by Remuneration and Appointments Committee and defined under the governance and accountability of the Board of Directors.
The Board of Directors does not take into account, when deciding bonus, balance sheet extraordinary items which do not impact operational performance, regulatory capital and liquidity (e.g. goodwill impairment, extraordinary contributions to deposit guarantee schemes, etc.).
Moreover, following potential changes in current regulations and/or in relation to potential extraordinary and/or unpredictable contingencies which can impact the Group, the Company or the market in which it operates, the Board of Directors, having heard the opinion of Remuneration and Nomination Committee, maintains the right to amend the system and relevant rules.

INDIVIDUAL BONUS ALLOCATION

- Individual bonus will be allocated to beneficiaries considering bonus pool, the individual performance appraisal, the internal benchmarking analysis on similar roles and the maximum ratio between variable and fix compensation as approved by Shareholder's Meeting;
- individual performance appraisal is based on 2017 performance screen: a minimum of 5 and maximum 8 individual goals assigned during the performance year, of which at least 4 selected from the catalogue of main key performance indicators ("*KPI Bluebook*") and linked to the 5 Fundamentals of Group Competency Model[11]. Competencies and behaviours considered as relevant can be taken into account by the manager for the overall performance appraisal. Further details in chapter 5.3.1;
- the goals appraisal system is based on a 1-5 values scale with a descriptive outcome (from "*Below Expectations*" to "*Greatly Exceeds Expectations*").

[11] *Group Competency Model* represents the framework in which the Executives are assessed within the *Executive Development Plan* process. The 5 Fundamental are: *Customers First, Execution & Discipline, Cooperation and Synergies, Risk management, People Development*.



BONUS PAYOUT

- As approved by the Board of Directors of January 9th, 2017, with reference to pay-out structure, the *Identified Staff* population will be differentiated into two clusters, using a combined approach of banding and compensation:
  - CEO/GM and 1st reporting line: 5 years deferral scheme
  - Other identified Staff: 3 years deferral scheme.

REGULATORY REQUIREMENTS

In line with regulatory requirements:
- 5-year deferral period maintained only for Top Management and selected key senior roles. In general a deferral period from 3 to 5 years is required, and the request for 5 years is limited to «high earners", Top Management and Head of key business lines as well as the direct reports to strategic supervisory, management and control bodies
- minimum 50% of bonus to be allocated in shares or other financial instruments
- minimum 40% of bonus to be paid out under a deferral period (minimum 60% for specific positions and particularly high amounts)
- 2 years minimum retention period for the upfront shares and shorter retention period (1 year) for the deferred shares

- The pay-out of incentives will be done through upfront and deferred instalments, in cash or in Fineco ordinary shares, up to a maximum 6-year period:
  - in 2018 the first instalment (1st tranche) of the total incentive will be paid in cash in absence of any individual values /compliance breach[12];
  - over the period 2019-2023 the remaining part of the overall incentive will be paid in cash and/or Fineco ordinary shares; each further tranche will be subject to the application of the Zero Factor for the year of allocation and in absence of any individual / values compliance breach[12];

[12] Considering also the seriousness of any internal/external findings (e.g. Audit, Bank of Italy, Consob and/or analogous local authorities).

	2017	2018	2019	2020	2021	2022	2023
CEO/GM AND 1ST REPORTING LINE	PERFORMANCE YEAR	20% UPFRONT CASH	10% DEFERRED CASH	20% UPFRONT SHARES	10% DEFERRED SHARES	10% DEFERRED SHARES	20% DEFERRED CASH 10% DEFERRED SHARES
OTHER IDENTIFIED STAFF	PERFORMANCE YEAR	30% UPFRONT CASH	10% DEFERRED CASH	30% UPFRONT SHARES	10% DEFERRED CASH 10% DEFERRED SHARES	10% DEFERRED SHARES	

- all the instalments are subject to the application of claw-back conditions, as legally enforceable;
- in coherence with 2016, a minimum threshold[13] will be introduced, below which no deferral mechanisms will be apply;
- the number of shares to be allocated in the respective instalments shall be defined in 2018, on the basis of the arithmetic mean of the official closing market price of Fineco ordinary shares during the month preceding the Board resolution that evaluates 2017 performance achievements;
- free Fineco ordinary shares that will be allocated will be freely transferable;
- the payment structure has been defined in line with Bank of Italy provisions requiring a share retention period for upfront and deferred shares. In particular, the implementation of the share retention periods may be carried out in line with the fiscal framework, either via the allocation of restricted shares or the promise of shares that shall subsequently be allocated at the end of the intended retention period;
- the 2017 Incentive System provides for an expected impact on FinecoBank share capital of approximately 0,08%, assuming that all free shares for employees have been distributed. The overall dilution for all other current outstanding FinecoBank equity-based plans equals 0,52%;
- the beneficiaries cannot activate programs or agreements that specifically protect the value of unavailable financial instruments assigned within the incentive plans. Any form of coverage will be considered a violation of compliance rules and imply the consequences set out in the regulations, rules and procedures.

5.3.1 Comprehensive Performance Measurement

The 2017 Incentive System, described in the chapter 5.3, is supported by an annual performance measurement framework assuring coherence, consistency and clarity of performance objectives with business strategy, and encouraging and rewarding desired behaviours and risk orientation. Our performance management process ensures that to all *Identified Staff* are assigned at the beginning of the year their own individuals goals and includes a rigorous review of their goals achievements.

A specific process is performed annually at Group level with the involvement of key relevant functions (*Human Resources, Finance, Risk Management, Compliance, Group Sustainability, Audit, Group Stakeholder and Service Intelligence*) to review the so-called *KPI Bluebook*.

The *KPI Bluebook* serves as the framework for the definition of performance goals coherent, high quality based, aligned to business strategy, compliant with regulatory requirements and consistent with our corporate values and

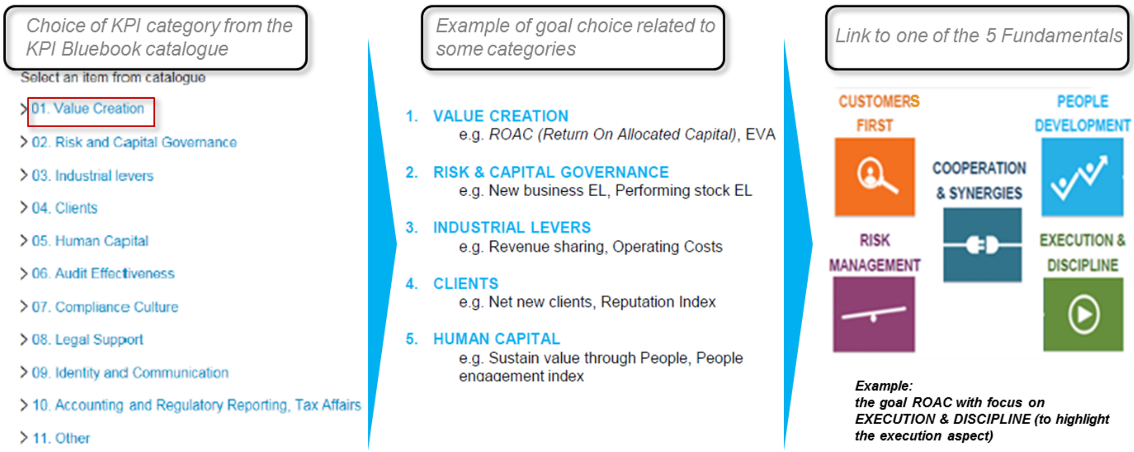
[13] Equal to Euro 75.000 that will be paid in cash.

Group Competency model. Therefore it supports the employees and their managers in the definition of individual Performance Screen.

KPI Bluebook includes a list of indicators certified at Group level, as well as specific guidelines related to:

- the selection of goals based on yearly priorities and customizable goals for Business/Division
- the use of risk-adjusted goal (e.g. select at least one KPI belonging to "Risk category" or related to risk management / risk-adjusted profitability)
- the use of sustainability objectives (e.g. at least half of the goals should be related to sustainability)
- the definition of the target of reference, in case objectives not included in certified list are selected(e.g. use clear and pre-defined parameters for future evaluation of performance)
- the selection of goals for the Company Control Functions, in order to ensure their independence (e.g. avoid KPI linked to economic measure).

The *KPI Bluebook* maps 11 categories of drivers that include a list of goals (KPI Dashboard):



The 11 categories represent financial and non-financial performance and are mapped into the different clusters of business of the Group (Asset Gathering included) to help identifying the most relevant standardized KPIs (all certified by relevant Group functions) for each role assigned, with specific focus on risk-adjusted, sustainability-driven metrics and economic measures. For each KPI included in the catalogue a link to one of the "5 fundamentals" of the *Group Competency Model*[14] (as shown above) is pre-set, conferring a specific qualitative connotation to the goal itself.

2017 Chief Executive Officer and General Manager Performance Screen

2017 KPIs defined and approved by FinecoBank Board of Directors as the core drivers of performance for FinecoBank Chief Executive Officer and General Manager include goals related to Bank profitability, with particular focus on risk, consistency with *Risk Appetite Framework* and sustainability. In continuity with 2016, also for 2017 a specific KPI has been provided, with reference to *"Tone from the top*" related to integrity towards conduct principles and spread of compliance culture among the organization.

[14] *Group Competency Model* represents the framework in which the Executives are assessed within the *Executive Development Plan* process. The 5 Fundamental are: *Customers First, Execution & Discipline, Cooperation and Synergies, Risk management, People Development*.

#	CORE GOALS	PERIMETER	REFERENCE TARGET	LINK TO 5 FUNDAMENTALS	KPI BB/CUSTOM	RISK ADJUSTMENT / SUSTAINABILITY GOAL
1	ROAC	FinecoBank	vs. budget	*Execution & Discipline*		S RISK ADJUSTED
2	EVA	FinecoBank	vs. budget	*Risk Management*		S RISK ADJUSTED
3	Operating Costs	FinecoBank	vs. budget	*Execution & Discipline*		
4	Net new clients	FinecoBank	vs. target	*Customers first*		S
5	Net Sales of guided products	FinecoBank	vs. budget	*Execution & Discipline*		
6	New business EL	FinecoBank	vs. budget	*Risk Management*		RISK ADJUSTED S
7	Sustain value through people	FinecoBank	Qualitative assessment based on: • Y/Y delta on Pay for Performance metrics on variable and fix pay • Y/Y delta on Gender Pay Gap / Gender Balance dashboard / Gender Diversity Initiatives • Succession Planning / Building up a sustainable Talent Management Support • People Engagement Index	*People Development*		S
8	Tone from the top on Compliance Culture	FinecoBank	Qualitative assessment based on: • Scope, kind and numbers of documented initiatives - pre-committed with CEO Office / Country's CEO, aimed at promoting staff integrity / customer protection / trustworthiness • The overall status of findings or proceedings in place (internal or external) considering the trend, type, severity and the timely completion of the related remediation actions	*Risk Management*		S RISK ADJUSTED

For the other *Identified Staff* of FinecoBank KPIs that include profitability and risk management are reflected also in their Performance Screens, with differences given by the relevant activities. It is understood in any case the rule pursuant to which no economic goals must be provided for the Company Control Functions.

5.4 2017 Incentive System for Financial Advisors belonging to *Identified Staff*

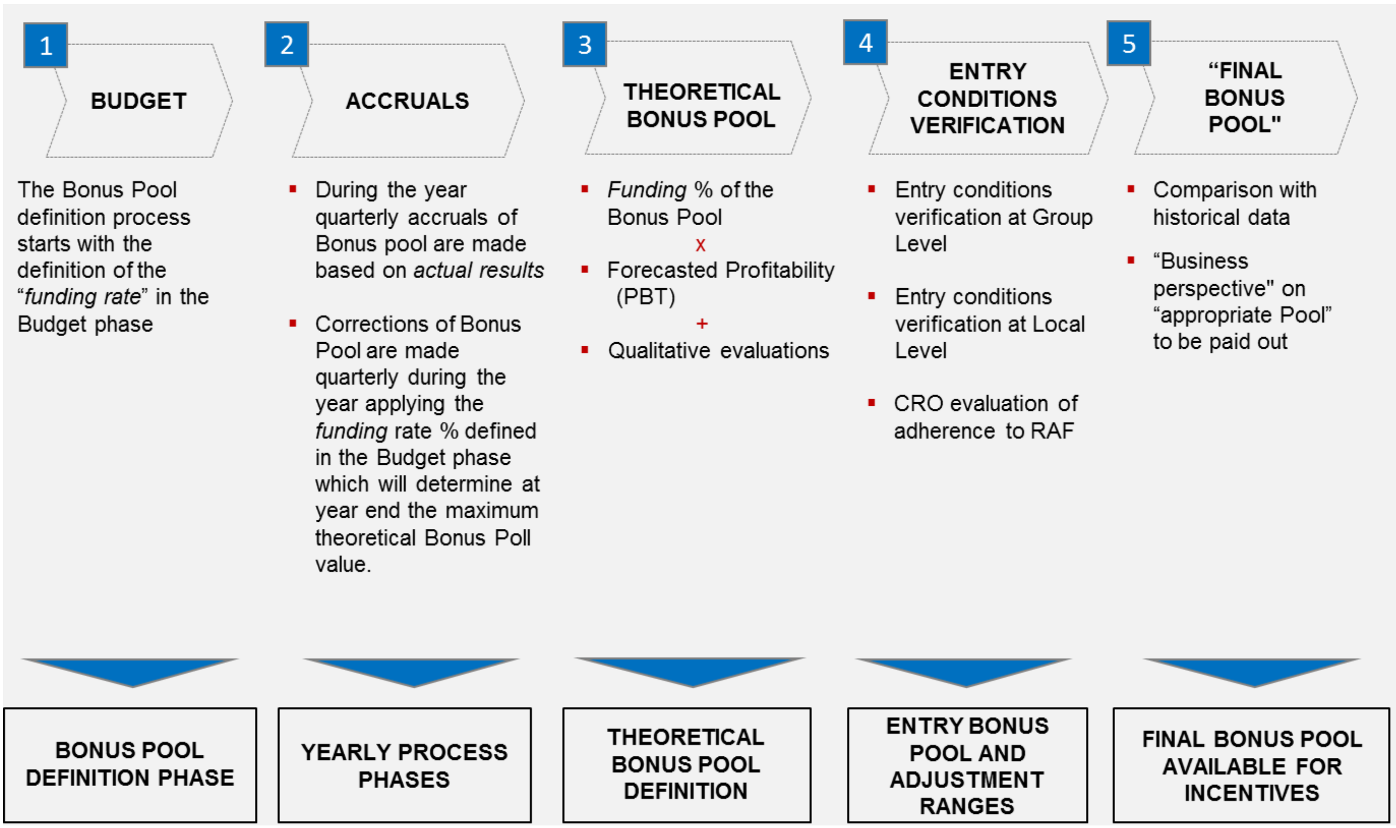
Given the differences in the forms of remuneration and in the modalities of its generation (see paragraph 4.2, Section II), also for the PFA population in FinecoBank, mirroring what is designed for the Employees, is provided a specific Incentive System based on a bonus pool approach, which takes into account the national and international regulatory requirements and directly links bonuses with Company results at Group and local level, ensuring the link between profitability, risk and reward.

In particular, the 2017 System for PFA Identified Staff – as approved by the Board on January 9th 2017 - provides for:

- allocation of a variable incentive defined on the basis of the determined bonus pool, of the individual performance appraisal as well as compliant with the ratio between fixed and variable remuneration approved by the Shareholder's Meeting;
- definition of a balanced structure of "upfront" (following the moment of performance evaluation) and "deferred" payments, in cash and/or in shares, to be paid over a period of up to maximum 5 years;

- distribution of share[15] payments which take into account the applicable regulatory requirements regarding the application of share retention periods. In fact the payment structure defined requires a retention period on shares (of 2 years for upfront shares and of 1 year for deferred shares);
- risk adjusted measures in order to guarantee long-term sustainability, regarding Company financial position and to ensure compliance with regulations;
- a *malus* clause (Zero Factor) which applies in case specific thresholds (profitability, capital and liquidity) are not met at both Group and local level. In particular, the bonus pool of 2017 will be zeroed, while previous systems deferrals could be reduced from 50% to 100% of their value, based on final effective results

In coherence with what previously described for the Employees, also for the PFA the process of bonus pool definition includes the following steps:



BUDGET

- Bonus pool process starts with the definition of the "funding rate" during budgeting phase. The funding rate for FinecoBank is a percentage of the Net Operating Profit (net of Provisions for Risk and Charges, corresponding to Profit Before Tax) considering: historical data analysis, expected profitability, business strategy and previous year pool. The bonus pool is submitted for approval to the Board of Directors of FinecoBank.

[15] Unlike what happens in the Incentive System for Employees, the FinecoBank shares used for the purposes of payments to the PFA, are not generated by a free capital increase, but are purchased directly on the market, pursuant to section 2357 of Italian Civil Code.

ACCRUALS

- During the year of performance, quarterly accruals are based on the actual results;
- on a quarterly basis bonus pool is adjusted applying the % of *funding rate* fixed during budgeting phase that set by the end of the year the maximum theoretical bonus pool.

THEORETICAL BONUS POOL, ENTRY CONDITIONS VERIFICATION AND RISK ADJUSTMENT

- Consistency with FinecoBank performance and sustainability is ensured through specific "Entry Conditions" set at both Group and local level;
- application of a *malus* clause in case specific profitability, liquidity and capital thresholds are not reached at Group and local level;
- the distribution is risk adjusted in order to guarantee sustainability with respect to FinecoBank *Risk Appetite Framework*;
- the bonus pool is proposed by FinecoBank on the basis of the year forecast – risk-adjusted – both at Group and local level.

The Entry Conditions are the mechanism that determines the possible application of *malus* clause (Zero Factor) on the basis of performance indicators in terms of capital and liquidity defined at both Group and local level (at local level is considered also the profitability). The entry conditions provided for 2017 are reported in the subsequent table, showing the differences in respect to 2016.

2016

GROUP	LOCAL
	Net Operating Profit adjusted ≥ 0 and
	Net Profit ≥ 0 and
Common Equity Tier 1 Ratio Transitional ≥ 10% and	*Common Equity Tier 1 Ratio Transitional ≥ 10% and*
Liquidity Coverage Ratio ≥ 75%	*Liquidity Coverage Ratio ≥ 75%*

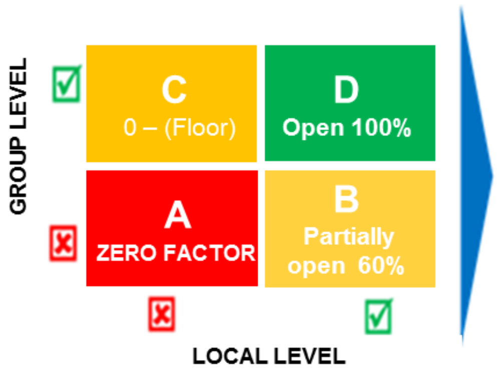
2017

GROUP	LOCAL
	Net Operating Profit adjusted ≥ 0 and
	Net Profit ≥ 0 and
Common Equity Tier 1 Ratio Transitional ≥ 10,25% and NEW	*Common Equity Tier 1 Ratio Transitional ≥ 10,25% and* NEW
Liquidity Coverage Ratio ≥ 100% and NEW	*Liquidity Coverage Ratio ≥ 100%* NEW
Net Stable Funding Ratio ≥ 100% NEW	

It is highlighted, in particular, that the thresholds for Common Equity Tier 1 and for Liquidity Coverage Ratio have been increased in respect of last year (the CET 1 is brought form a threshold of 10% to a threshold of 10,25%, while the Liquidity Coverage Ratio is brought from 75% to a threshold of 100%).

At Group Level a further liquidity KPI has been added – the Net Stable Funding Ratio – representing the ratio between the available amount of stable funding and the required amount of stable funding.

The Entry Conditions matrix and related effects on Fineco Bonus Pool follows the same logics provided in 2016, as shown below.



A. In case the Entry Conditions are not met both at Group and Local level, a Zero Factor is determined for the Identified Staff, while for the rest of population a portion of pool could be kept for retention purposes or to guarantee the competition on the market

B. In case the Entry Conditions are not met at Group Level, it is possible to have a pool at local level, if results are achieved, considering also the multiplier effect and the discretion of Remuneration and Appointments Committee and Board.

C. In case the Entry Conditions are not met at Local Level, but are met at Group Level, a minimum pool ("floor") for retention purposes can be set up.

D. In case the Entry Conditions are met both at Group and Local Level, the bonus pool can be confirmed or increased, with the possibility to award the extra performance, considering – also in this case – the multiplier effect and the discretion of Remuneration and Appointments Committee and Board.

In continuity with the 2016 System, in case the pool is in the box "B" the starting percentage of bonus pool is higher than the one provided for the Employee's System[16].

To activate the "multiplier" the crossed outcome of CRO and CFO dashboard are not considered anymore, but only the CRO dashboard is taken into account.

This choice for 2017, made also at Group Level, has the aim to avoid overlapping and to simplify the process, and takes also into account the fact that the Risk Appetite Framework already includes sustainability indicators.

The CRO dashboard (defined incoherence with the FinecoBank and Group Risk Appetite Framework) includes KPIs related to all relevant risks, among which the cost of capital and several risks such as credit, market and liquidity, measured with reference to the respective relevant thresholds (*limit*, *trigger* and *target*).

The "multiplier" effect deriving from the evaluation of overall CRO dashboard outcome made by the FinecoBank CRO – and verified by the FinecoBank Remuneration and Appointments Committee and by the FinecoBank Board – applies to the bonus pool in the cases described in the boxes D and B.

Compared to 2016 Incentive System, the multiplier ranges are slightly different, as shown below.

[16] The choice is due to the necessity of retention for Financial Advisors (tied to FinecoBank by an agency agreement) and consequently to safeguard a Company asset.

As provided in the 2016 System, a further range of discretion up to +20% is in the faculty of Remuneration and Appointments Committee and Board of Directors, while no limits to downward discretionally the bonus pool with respect to theoretical value is foreseen.

In any case, as requested by regulations as per Bank of Italy provisions, the final evaluation of sustainable performance parameters and the alignment between risk and remuneration will be assessed by Remuneration and Appointments Committee and defined under the governance and accountability of the Board of Directors.
The Board of Directors does not take into account, when deciding bonus, balance sheet extraordinary items which do not impact operational performance, regulatory capital and liquidity (e.g. goodwill impairment, extraordinary contributions to deposit guarantee schemes, etc.).
Moreover, following potential changes in current regulations and/or in relation to potential extraordinary and/or unpredictable contingencies which can impact the Group, the Company or the market in which it operates, the Board of Directors, having heard the opinion of Remuneration and Nomination Committee, maintains the right to amend the system and relevant rules.

BONUS PAYOUT

For the Financial Advisors included in the Identified Staff, a payout mechanism with a 3 years deferral is provided. The possible 2017 bonus will be paid up to a maximum 5 years period. In particular:

- in 2018 will be paid in cash the 1st tranche of the overall bonus, in absence of any individual values /compliance breach [17];
- in the period 2019–2022 the remaining part of the overall incentive will be paid in cash and/or Fineco ordinary shares; each further tranche will be subject to the application of the Zero Factor for the year of allocation and in absence of any individual / values compliance breach[17];

2017	2018	2019	2020	2021	2022
PERFORMANCE YEAR	30% UPFRONT CASH	10% DEFERRED CASH	30% UPFRONT SHARES	10% DEFERRED CASH 10% DEFERRED SHARES	10% DEFERRED SHARES

- all the instalments are subject to the application of claw-back conditions, as legally enforceable;

[17] Considering also the seriousness of any internal/external findings (e.g. Audit, Bank of Italy, Consob and/or analogous local authorities).

- in coherence with 2016, a minimum threshold[18] will be introduced, below which no deferral mechanisms will be apply;
- the number of shares to be allocated in the respective instalments shall be defined in 2018, on the basis of the arithmetic mean of the official closing market price of Fineco ordinary shares during the month preceding the Board resolution that evaluates 2017 performance achievements;
- free Fineco ordinary shares that will be allocated will be freely transferable;
- the 2017 Incentive System provides for an expected impact on FinecoBank share capital of approximately 0,06%, assuming that all free shares for employees have been distributed. The 2017 PFA Incentive System does not have a dilution impact as the FinecoBank shares awarded are purchased on the market and are not generated through a free capital increase.

The beneficiaries cannot activate programs or agreements that specifically protect the value of unavailable financial instruments assigned within the incentive plans. Any form of coverage will be considered a violation of compliance rules and imply the consequences set out in the regulations, rules and procedures.

5.4.1 Comprehensive performance measurement

Taking into account the specificities of the PFA business, and in continuity with the previous years Incentive Plans in terms of business objectives, for the purposes of the 2017 Incentive System for PFA[19] the performance assessment of Financial Advisors included in the Identified Staff will be based on the following indicators:

- total net sales goal (difference between the invested and disinvested assets by FinecoBank customers);
- net sales of asset under management goal;
- development activities (for instance planned and structured meeting with customers);
- percentage of achievement of the overall group goal by the managed Financial Advisors and percentage of sales in Guided Products[20] in comparison with the group overall goal[21];
- percentage of achievement of individual net sales goal and percentage of net sales of asset under management in comparison with the individual goal[22];
- value generated by the requalification of assets in liquidity and asset under custody in Guided Products.

[18] Equal to Euro 75.000 that will be paid in cash.
[19] Always taking into account the individual compliance condition, as described above
[20] Guided products and services, as SICAV Core/Advice/Core Unit and all the products identified as such by the Company at the time
[21] For the Financial Advisors with managerial positions with more than 5 PFA coordinated
[22] For the Financial Advisors and Financial Advisors with managerial position and less than 5 PFA coordinated

Quantitative Information

6. Compensation Data

6.1 2016 Compensation Outcomes

Employees

Euro/ 000

Population as of 31/12/2016	No.	Fix	2016 Short Term Variable				Deferred variable from previous exercises***				Variable paid in 2016 from previous exercises	
			Upfront		Deferred		Vested in 2016		Unvested			
			€	Shares	€	Shares	€	Shares	€	Shares	€	Shares
Chief Executive Officer and General Manager (CEO) *	1	850	112	0	168	281	283	1.408	170	3.385	404	279
Non-executives Directors**	8	604	0	0	0	0	0	0	0	0	0	0
Executives with strategic resposibilities	5	1.648	196	0	295	491	355	2.300	297	5.854	504	272
Other Identified staff	7	1.206	347	0	42	69	67	350	119	311	358	554

* 10 % of the amount has been paid by UniCredit S.p.A.

** Including employees of UniCredit Group. In compliance with has been defined at Group level in the " Policy in materia di struttura, composizione e remunerazione degli Organi Sociali delle Società di Gruppo", the Board of Directors' members who are employees of Unicredit Group renounce of the total amount of their appointment as Board members.

*** Monetary and shares amounts of the UniCredit Group Incentive System Plans included in the table are subjet to the approval of the Unicredit Board of Directors on March 13, 2017. The shares amounts are expressed with convertion rate and after Capital increase.

Euro/ 000

Population as of 31/12/2016	No.	Fix	2016 Short Term Variable				Deferred variable from previous exercises**				Variable paid in 2016 from previous exercises	
			Upfront		Deferred		Vested in 2016		Unvested			
			€	Shares	€	Shares	€	Shares	€	Shares	€	Shares
Identified Staff belonging to business functions *	5	2.178	287	0	431	719	601	3.459	435	8.617	854	521
Identified Staff belonging to support functions	5	1.003	254	0	73	122	56	474	69	716	316	327
Identified Staff belonging to control functions	3	523	115	0	0		48	125	82	217	96	257

* 10 % of the amount of the CEO has been paid by UniCredit S.p.A.

** Monetary and shares amounts of the UniCredit Group Incentive System Plans included in the table are subjet to the approval of the Unicredit Board of Directors in 13th March 2017.

The vested component refers to cash and equity awards to which the right matured in 2016 as the performance conditions were achieved:

- vested cash payments refer to *2013, 2014* and *2015 Group Incentive System*;

- vested equity payments refer to *2012, 2013*, 2014 *Group Incentive System*, to "*2014 Plan Key People*" and to "*2014-2017 Multi-year Plan Top Management"*.

The unvested component refer to cash and equity awards for which the right did not matured in 2016 and for which any potential future gain has not been yet realized and remains subject to future performance:

- unvested cash payments refer to *2015 Group Incentive System*;

- unvested equity payments refer to *2013, 2014,2015 and* “*2014-2017 Multi-year Plan Top Management”*.

The value of the shares shown as 2016 short term variable and deferred variable from previous exercises is calculated considering:

- for *2014, 2015 and 2016 Group Incentive System* the arithmetic mean of the official closing prices of Fineco ordinary shares from January 6th to February 6th, 2017;
- for “*2014-2017 Multi-year Plan Top Management*” the listing price of Fineco ordinary shares for the 4th instalments’ number of shares, while the arithmetic mean of the official closing prices of Fineco ordinary shares from January 6th to February 6th, 2017 for the 1st, the 2nd and the 3rd instalments’ number of shares;
- for “*2014 Plan Key People*” the arithmetic mean of the official closing prices of Fineco ordinary shares from January 6th to February 6th, 2017;
- for *2014, 2013 and 2012 Group Incentive System* based on UniCredit shares, the arithmetic mean of the official closing prices of UniCredit ordinary shares from January 28th to February 28th, 2017.

Variable paid in 2016 from previous exercises includes pay-outs based on demonstrated multi-year performance achievements related to Group Incentive Systems plans based on Fineco and UniCredit shares, to the “*2014 Plan Key People*”.

All stock options granted under existing Group LTI plans represent zero gain for the beneficiaries as long as the entry conditions will not allow the exercise.

The Chief Executive Officer and General Manager for 2016 is the only one employee that have been rewarded with more than 1 mln Euros.

it is underlined that in 2016 no non standard compensation has been paid to or agreed with employees belonging to Identified Staff.

It is underlined that in 2016 no Severance has been paid to or agreed with Identified Staff.

Financial Advisors

Euro/ 000

Population as of 31/12/2016	No.	Fix*	2016 Short Term Variable **				Deferred variable from previous exercises **				Variable paid in 2016 from previous exercises **	
			Upfront		Deferred		Vested in 2016		Unvested			
			€	Shares	€	Shares	€	Shares	€	Shares ***	€	Shares
Personal Financial Advisors belonging to Identified Staff	11	5.403	341	0	128	319	63	95	63	250	250	132

* Recurring remuneration

** Non-recurring remuneration

*** Phantom Share

The vested component refers to cash and equity awards to which the right matured in 2016 as the performance conditions were achieved. In particular:
- vested cash payments refer to "*2015 Group Incentive System PFA*" for Financial Advisors and Managers of the Network;
- vested equity payments refer to "2014 *Plan PFA*" for Financial Advisors and Managers of the Network;

The unvested component refer to cash and to Phantom shares to which the right did not matured in 2016 and for which any potential future gain has not been yet realized and remains subject to future performance. In particular:
-the unvested cash payment refer to "*2015 Group Incentive System PFA*" for Financial Advisors and Managers of the Network.
-the unvested phantom shares refer to "*2015 Group Incentive System PFA"* for Financial Advisors and Managers of the Network.
The value of the shares / Phantom shares shown as 2016 short term variable and deferred variable from previous exercises is calculated considering the arithmetic mean of the official closing prices of Fineco ordinary shares from January 6th to February 6th, 2017.
Variable paid in 2016 from previous exercises includes pay-outs based on actual performance achievements related to "*2014 Plan PFA*", to "*2015 Group Incentive System PFA*" for Financial Advisors and Managers of the Network.

6.2 2017 Compensation Policy

	COMPENSATION PAY-MIX	
	FIX AND OTHER NON - PERFORMANCE RELATED PAY	VARIABLE PERFORMANCE - RELATED PAY
NON-EXECUTIVE DIRECTORS		
Chairman and Vice Chairman	100%	0%
Directors	100%	0%
Statutory Auditors	100%	0%
OVERALL EMPLOYEE POPULATION		
Business areas	81%	19%
Support function	92%	8%
Overall Company	90%	10%

Total compensation policy for non-Executive Directors, *Identified Staff* and for the overall employee population demonstrates in particular how:

- remuneration of the non-Executive Directors, as approved by the Shareholders' Meeting, does not include variable performance-related pay;
- *Identified Staff* are offered opportunities for variable compensation in line with their strategic role, regulatory requirements and our pay for performance culture;
- the general employee population is offered a balanced pay-mix in line with the role, scope and business or market context of reference.

Leverage

The Basel III supervisory regulations introduced obligations on the calculation, reporting, and publication of the leverage ratio, forming an additional regulatory requirement to risk-based indicators.

The leverage ratio has the following objectives:

- restricting the build-up of leverage in the banking sector;
- enhancing capital requirements with a further, simple and non risk-based measure.

Timeline

The BCBS provisions (1st framework as of December 2010) were transposed into "Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms" (CRR), with the first quarterly report due on March 31, 2014.

In January 2014, the BCBS published the 2nd framework which defines calculation rules, timelines and disclosure requirements.

On October 10, 2014 the European Commission amended article 429 of Regulation (EU) 575/2013 through Delegated Regulation (2015/62).

On January 17, 2015 the Delegated Regulation was published on the European Union Official Journal and entered into force the next day. Therefore, starting from January 18, 2015, the Disclosure by Institutions must be provided according to the rules of the Delegated Regulation.

On June 15, 2015, the EBA published the final version of:

- the new reporting technical standards (Implementing Technical Standards ITS), which include the amendments introduced by the Delegated Regulation (2015/62);
- the tables required for the Disclosure by Institutions and the related compilation rules (ITS on Disclosure), in line with the amendments introduced by the Delegated Regulation (2015/62).

Therefore, in accordance with the regulatory framework described above, the present disclosure applies the Leverage Ratio calculation rules set out in Delegated Regulation 2015/62. The template used to provide this disclosure is as provided by the aforementioned ITS.

Contents

Article 429 of the CRR defines the leverage ratio as the Bank's capital measure divided by that institution's total exposure measure and shall be expressed as a percentage ratio between:

- Tier 1 capital;
- the total exposure of the Bank, equal to the sum of the exposure values of all assets and off-balance sheet items not deducted from Tier 1 capital.

On August 10, 2016, the European Central Bank (ECB) published the document "Addendum to the ECB Guide on options and discretions available in Union law" which establishes the ECB's approach on several options and discretions provided by Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRD IV) and Directive 2013/36/EU of the European Parliament and of the Council (CRD IV) and granted to the competent authorities. In particular, it was established that the ECB, in exercising the discretions pursuant to Article 429, paragraph 7 of the CRR (exclusion of intercompany exposures from the leverage ratio calculation), will assess the

requests from the supervised entities, taking account of certain specific aspects, highlighted in the document, to ensure the prudent implementation of the applicable regulatory framework. In particular, the assessment is aimed at ensuring that the leverage ratio accurately measures the degree of leverage, controls the risk of excessive leverage and constitutes an adequate protection mechanism for the risk weighted capital requirements, also taking due account of the orderly flow of capital and liquidity within the group at national level. In addition, when the exemption is granted, it is considered fundamentally important to avoid the "risk of excessive leverage" described in the regulations from being concentrated within a subsidiary of the group being assessed.
As at December 31, 2016, as required by Circular No. 285 of the Bank of Italy, Part Two, Chapter 12, Section III Exercise of national discretion, exposures to the UniCredit Group companies based in Italy and weighted at 0% pursuant to Article 113, par. 6 of the CRR have not been included in the calculation of total exposure, in accordance with Article 429 (7) of the CRR 575/2013 amended by the Delegated Regulation (EU) 2015/62. The choices made by the Bank of Italy of general scope apply to banks other than those subject to direct supervision by the European Central Bank (less significant institutions – LSI) and, unless otherwise indicated by the latter, also the banks subject to its direct supervision ("significant institutions – SI"), including FinecoBank. The European Central Bank obviously still maintains jurisdiction for the significant banks for the discretions whose exercise requires a case-by-case assessment (usually carried out through specific administrative procedures).

The total exposure includes (article numbers refer to the CRR):

- Derivatives measured according to the mark-to-market method as per Article 274;
- Security Financing Transactions (SFTs) – exposure to which is calculated as sum of counterparty risk (i.e. exposure less collateral and the accounting value of the transaction;
- "Off-balance" sheet exposures – measured at nominal value, after deducting credit risk adjustments converted with credit conversion factors relating to financial leverage, as per article 111;
- Other asset exposures different to derivatives and SFTs – measured at book value net of additional value adjustments and other own funds reductions relative to the asset item as per article 111.

The qualitative and quantitative disclosure given below is provided according to the rules and templates set out in the final draft of the aforementioned ITS on the Disclosure.

The following figures refer to the Leverage Ratio calculated by applying the transitional rules.

Quantitative Information

Leverage ratio common disclosure

The following table shows the leverage ratio at December 31, 2016, compared against the figures at December 31, 2015, and the extent of the total exposure in the main categories, according to CRR articles 451(1)(a), 451(1)(b) and 451(1)(c).

		CRR leverage exposures 12.31.2016	*CRR leverage exposures 12.31.2015*
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	20,895,413	18,124,743
2	(Asset amounts deducted in determining Tier 1 capital)	(74,633)	(75,005)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs and fiduciary assets) (sum of lines 1 and 2)**	**20,820,780**	**18,049,738**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	3,561	2,349
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	13,623	17,514
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(7,849)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**9,335**	**19,863**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	87,401	200,857
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	4,504	49,860
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)		
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**91,905**	**250,717**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	1,681,762	550,523
18	(Adjustments for conversion to credit equivalent amounts)	(338,246)	(246,635)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**1,343,516**	**303,888**
	Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) No 575/2013		
EU19-a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	(16,963,292)	(14,907,049)
EU19-b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	-	
	Capital and total exposure measure		
20	Tier 1 capital	438,121	390,977
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	5,302,244	3,717,157
22	**Leverage ratio**	**8.26%**	**10.52%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	-	-

(Amounts in € thousand)

Summary reconciliation of accounting assets and leverage ratio exposures

The table reconciles the leverage ratio denominator with figures reported under the relevant accounting standards, as required by Article 451(1)(b) of the CRR.

		Applicable amount 12.31.2016	*Applicable amount 12.31.2015*
1	Total assets as per published financial statements	20,986,376	18,327,949
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-	-
4	Adjustments for derivative financial instruments	5,774	17,514
5	Adjustments for securities financing transactions (SFTs)	4,504	49,860
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,343,516	303,888
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	(16,963,292)	(14,907,049)
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-	-
7	Other adjustments	(74,634)	(75,005)
8	**Leverage ratio total exposure measure**	**5,302,244**	**3,717,157**

(Amounts in € thousand)

Item 7 “Other adjustments” includes deductions from Tier 1 relative to balance-sheet assets (transitional arrangements).

Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

For exposures other than Derivatives and SFTs, the table provides the breakdown by class of counterparty, according to the provisions of article 451(1)(b) of the CRR.

		CRR leverage exposures 12.31.2016	*CRR leverage exposures 12.31.2015*
UE-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:**	**5,212,216**	**3,531,813**
UE-2	Trading book exposures	3,029	1,626
UE-3	Banking book exposures, of which:	5,209,187	3,530,187
UE-4	Covered bonds	-	-
UE-5	Exposures treated as sovereigns	4,040,518	2,559,607
UE-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	3	-
UE-7	Exposures to institutions	75,594	80,605
UE-8	Secured by mortgages of immovable properties	917	211
UE-9	Retail exposures	793,209	601,854
UE-10	Corporate	89,371	80,295
UE-11	Exposures in default	3,664	4,875
UE-12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	205,911	202,740

(Amounts in € thousand)

The figures at December 31, 2015 have been restated net of the exempted intercompany exposures.

Quantitative disclosure

The qualitative disclosure required under Article 451(1) letter d) of the CRR is provided below.

Processes used to manage the risk of excessive leverage

The Group's Risk Appetite Framework is the foundation for the management of the UniCredit Group's risks. The Framework sets out governance mechanisms, processes, instruments and procedures for the overall management of Group risks. Leverage risk is covered by the Group Risk Appetite Framework and therefore is subject to the control procedures and mechanisms set out therein.

The quantitative instruments for measuring leverage risk derive from the Group Risk Appetite Framework, which also includes the Leverage Ratio indicator. This KPI has its own targets, triggers and limits that are regularly monitored through reporting processes. The results of periodic monitoring and the reports are submitted to the Board of Directors.

The Risk Appetite process sets out governance processes, management engagement and escalation processes to be used in normal operating conditions and under stress. Escalation processes are activated at the appropriate organisational level to ensure an adequate reaction when triggers or limits are exceeded.

Issues of maturity mismatches and asset encumbrance are closely monitored and managed. The control mechanisms in place ensure prompt identification of potential risks including the risk of excessive leverage.

The risk deriving from a maturity mismatch is monitored through the use of the structural liquidity ratio, calculated on a monthly basis. This indicator is the ratio between accumulated long-term liabilities and medium-/long-term assets, indicating the proportion of assets with a residual maturity of more than 1 year funded by liabilities with a corresponding maturity.

The structural liquidity ratio is part of the set of granular liquidity limits and as such is subject to specific escalation processes.

The dynamics of asset encumbrance are monitored through the counterbalancing capacity. The sum of counterbalancing capacity and aggregate incoming and outgoing cash flows within one year (primary gap) represents the operational maturity ladder, which for each maturity bucket indicates the excess of encumbered assets compared to the bank's accumulated liquidity needs.

The operational maturity ladder is part of the set of granular liquidity limits and as such is subject to specific escalation processes.

Use of risk mitigation techniques

The Bank, consistent with the "Revised Framework of International Convergence of Capital Measures and Rules" (Basel II, as amended), is firmly committed to satisfying the requirements for recognition of Credit Risk Mitigation (hereafter "CRM") techniques for regulatory capital purposes, of the different instruments relating to the Standardised approach.

In this regard, specific projects have been completed and actions have been carried out for implementing the Group's internal regulations and for bringing processes and IT systems into compliance.

The Bank has implemented the regulatory requirements on CRM by issuing specific internal Guidelines, prepared in compliance with supervisory regulations. The Guidelines have several objectives:

- to facilitate the optimal management of collateral and guarantees;
- to maximise the mitigating effect of collateral and guarantees on defaulted receivables;
- to attain a positive impact on Group capital requirements, ensuring that CRM practices meet minimum "Basel III" requirements;
- to define general rules for eligibility, valuation, monitoring and management of collateral and guarantees and to detail special rules and requirements for specific collateral/guarantees.

Collateral and guarantees are accepted only to support loans and they cannot serve as a substitute for the debtor's ability to meet obligations. Accordingly, they have to be evaluated in the credit application along with the assessment of the creditworthiness and the repayment capacity of the debtor.

Any collateral/guarantee can be considered adequate if it is consistent with the underlying credit exposure and, for guarantees, when there are no relevant risks towards the protection provider.

In general, operative instructions and related processes are particularly severe, aiming at ensuring the formal and substantive establishment of each collateral/guarantee acquired.

Policies and processes for on- and off-balance sheet netting, and an indication of the extent to which the Bank makes use of netting

The Bank mitigates counterparty risk by entering into standardised Stock Lending agreements with institutional counterparties. These techniques are used for management, but not regulatory, purposes.

Policies and processes for collateral valuation and management

The Bank has implemented a collateral management system in order to ensure a clear and effective process of measuring, monitoring and managing all types of guarantees intended to mitigate credit risk.

The assessment of the collateral value is based on the current market price or the estimated amount which the underlying asset could reasonably be liquidated for (i.e. pledged financial instrument or mortgaged real estate fair value).

In particular, the valuation methods of financial instruments depends on their type:

- securities listed on a recognised stock exchange are valued at the market price (the price of the most recent trading session);
- UCITS units are valued at the price corresponding to the daily value published by the management company per unit.

The valuation of the lien collateral must be adjusted to ensure that is always sufficient also based on the market volatility of the underlying instruments. Haircuts may also take account of the possible foreign exchange volatility. In case of currency mismatch between the credit facility and the collateral, an additional haircut is applied. Possible mismatches between the maturity of the exposure and that of the collateral are also considered in the adjusted collateral value.

For real estate collateral, the principles and rules are described in the policy on the granting of residential mortgages with property collateral to current account holders of FinecoBank S.p.A. The valuation of the assets is performed by external technical experts included in the Register of Engineers, Architects and Surveyors or industrial experts who are not therefore susceptible to conflict of interest.

Description of the main types of collateral accepted

The collateral accepted in support of credit products granted by the Bank primarily includes debt securities, equities, and UCITS units and, residually, residential and commercial mortgages.

In order to be considered eligible for risk mitigation, the general requirements according to Supervisory Regulations must be met, along with the specific requirements for the Standardised approach.

The Parent Company provides specific guidelines for the eligibility of all kinds of collateral and the Bank defines the list of eligible collateral, according to uniform Group methods and procedures and in compliance with all domestic legal and supervisory requirements and specific local requirements.

Main types of guarantor and credit derivative counterparty and their creditworthiness

No data to report.

Information about market or credit risk concentrations within the credit risk mitigation instruments used

There is concentration risk when the major part of collateral financial assets (at portfolio level) are concentrated in a small number of collateral types, of protection arrangements, or when it is provided by a small group of specific providers of collateral (a single entity or reference industrial sector) or when there is lack of proportion in the volume of collateral taken.

As mentioned, the valuation of the lien collateral is based on its actual value, i.e. the market value for the financial instruments listed in a regulated market. The resulting value is subject to percentage haircuts, differentiated based on the financial instruments used as security and the concentration of the instrument in the customer's portfolio provided as security.

Risk mitigation techniques – Standardised approach

Book	*12.31.2016*				
	Net exposure before application of conversion factor	*Adjustments for volatility of exposure*	*Financial collateral - comprehensive method*	*Adjusted exposure value*	*Value of exposure after application of conversion factor*
Exposures subject to the IRB approach					
Total – ISB approach	-	-	-	-	-
Exposures subject to the standardised approach					
Exposures with or secured by central governments or central banks	4,040,518	-	-	4,040,518	4,040,518
Exposures with or secured by Institutions	18,097,384	72,802	(1,095,904)	17,074,282	16,259,880
Exposures with or secured by regional governments or local authorities	-	-	-	-	-
Exposures with or secured by multilateral development banks	3	-	-	3	3
Exposures with or secured by Companies and other entities	306,491	33,915	(200,324)	140,082	138,486
Retail exposures	2,330,557	217,229	(1,138,985)	1,408,801	1,034,666
Short-term exposures with corporates and other entities or institutions	-	-	-	-	-
Exposures secured by real estate property	917	-	-	917	917
Exposures in default	3,752	-	(1)	3,751	3,664
High-risk exposures	-	-	-	-	-
Equity exposures	3,532	-	-	3,532	3,532
Other exposures	109,337	-	-	109,337	109,337
Total - standardised approach	**24,892,491**	**323,946**	**(2,435,214)**	**22,781,223**	**21,591,003**
Total Exposures	**24,892,491**	**323,946**	**(2,435,214)**	**22,781,223**	**21,591,003**

(Amounts in € thousand)

Glossary

AMA (Advanced Measurement Approach)

Applying this methodology, operational risk requirement is obtained using calculation models based on operational loss data and other evaluation elements collected and processed by the Bank. Admittance threshold and specific suitability requirements have been established for the use of the standard and advanced approaches. For the AMA approach the requirements regard the measurement system, as well as the management system.

Risk-weighted assets

See the item “RWA - Risk-Weighted Assets”.

Banking book

Used in relation to financial instruments, particularly securities, this term identifies the portion of those portfolios intended for "proprietary" activities.

Basel 2

International agreement on the capital requirements of banks in relation to the risks assumed by them. This agreement has been adopted, at national level, by the respective competent supervisory authorities, including the Bank of Italy. The new prudential regulations, which came into force in Italy in 2008, are based on three pillars.

- Pillar 1: while the objective of a level of capitalisation equivalent to 8% of the risk-weighted exposures remains unchanged, a new set of rules has been established for measuring the typical risks associated with banking and financial activities (credit risk, counterparty risk, market risk and operational risk) which provides for alternative calculation methods characterised by different levels of complexity, with the ability to use internally developed models subject to prior authorization by the Supervisory Authority;
- Pillar 2: requires banks to have processes and tools for determining the adequate level of total internal capital (Internal Capital Adequacy Assessment Process - ICAAP) for covering all types of risk, including risks other than those covered by the overall capital requirement (Pillar I), within the framework of an evaluation of current and future exposure that takes account of strategies and of changes in the reference context. It is the Supervisory Authority's task to examine the ICAAP process, formulate an overall judgement and, where necessary, apply the appropriate corrective measures;
- Pillar III: introduces obligations to publish information concerning capital adequacy, exposure to risks, and the general characteristics of the systems used for identifying, measuring and managing those risks.

Basel 3

International agreement amending Basel 2 adopted in December 2010, containing amendments to the prudential rules on the capital and liquidity of banks, with the gradual entry into force of the new capital requirements from January 1, 2014 until December 31, 2019. These rules have been implemented at European level through the CRD IV “Package”.

Economic capital

Capital level that is required by a bank to cover the losses that may occur with at a time horizon of one year and a certain probability or confidence level. Economic Capital is a measure of the variability of the Expected Loss of the portfolio and depends on the degree of diversification of the portfolio itself.

Internal Capital

Represents the amount of capital required to cover potential losses and is required to support the business activities and positions held. Internal Capital is the sum of the aggregated Economic Capital and a cushion that considers the effects of the cycle and model risk.

Common Equity Tier 1 or CET 1

The Common Equity Tier 1 under Basel 3, mainly consisting of ordinary paid-up capital, the related share premium, operating profit, reserves and other regulatory adjustments, as provided for by the CRR regulation and the Supervisory Regulations (both during the transitional period and fully loaded).

Tier 1 Capital

The most reliable and liquid part of a bank’s capital, as defined by the regulatory rules.

CFO

Chief Financial Officer.

Countercyclical capital buffer

The countercyclical capital buffer consisting of Common Equity Tier 1 pursuant to Supervisory Regulations, according to the concept contained in Articles 128 and 130 of the CRD IV, equal to the risk weighted assets, calculated in accordance with Article 92, paragraph 3, of the CRR by the Company's countercyclical capital buffer, determined according to the criteria established by the Supervisory Regulations at an amount ranging from 0% to 2.5%.

CRD (Capital Requirements Directives)

EU Directives 2006/48 and 2006/49, adopted by Bank of Italy circular 263/2006 of December 27, 2006 as amended. The CRD IV “Package” has replaced the two aforementioned Directives and consists of the EU Directive 2013/36 on the taking up of the business of credit institutions and prudential supervision and the EU Regulation 575/2013 on prudential requirements, adopted by the Bank of Italy circular 285 of December 17, 2013 as amended.

Impaired loans

Loans and receivables are reviewed periodically in order to identify those that, following events occurring after initial recognition (at market value, which is, usually, equal to the amount paid including transaction costs and income directly attributable to the disbursement of the credit) show objective evidence of possible impairment. These include a loans to which the status of non-performing, unlikely to pay and past due has been assigned, according to the Bank of Italy rules in line with the IAS/IFRS (q.v.).

CRM - Credit Risk Mitigation

Credit Risk Mitigation is a set of techniques, ancillary contracts to the loan or other instruments (e.g. securities, guarantees), which reduces credit risk capital requirements.

CRO

Chief Risk Officer.

Default

A party's declared inability to honour its debts and/or the payment of the associated interest.

EAD – Exposure At Default

Relating to the on-balance and off-balance sheet positions, EAD is defined as the estimation of the future value of an exposure at the time of the debtor's default. Only banks that meet the requirements for adopting the "IRB – Internal Rating Based" advanced approach are allowed to estimate EAD (q.v.). Other banks are required to refer to regulatory estimations.

EBA European Banking Authority

The European Banking Authority is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.

ECB

European Central Bank. The ECB is the central bank for Europe's single currency, the euro.

Expected Losses

The losses recorded on average over a one year period on each exposure (or pool of exposures).

Non-performing exposures

According to the EBA Implementing Technical Standards, non-performing exposures are all on-balance-sheet and off-balance-sheet exposures that satisfy either or both of the following criteria:

(i) material exposures which are more than 90 days past due;

(ii) exposures for which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Past-due and/or overdrawn impaired exposures

i.e. on-balance sheet exposures, other than those classified as non-performing or unlikely to pay that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures may be determined, alternatively, with respect to the individual debtor or the individual transaction. Specifically, they represent the total exposure to any borrower not included in the unlikely to pay and non-performing loans categories, who at the reporting date has expired facilities or unauthorised overdrafts that are more than 90 days past due and meet the requirements set out by local supervisory regulations for their classification under the "past due exposures" category (TSA banks) or "defaulted exposures" (IRB banks).

EVA (Economic Value Added)

EVA is an indicator of the value created by a company. It expresses the ability to create value in monetary terms, as it is equal to the difference between net operating profit and the cost of invested capital.

Fair value

The price at which an asset can be traded or a liability settled in a free-market transaction between independent parties at arm’s length.

Own funds or Total Capital

The own funds of a bank consist of a series of regulatory defined items (excluding the negative items to be deducted), classified based on capital quality and loss absorbing capacity. From January 1, 2014, after the CRR came into force, Own Funds consists of the sum of Tier 1 capital and Tier 2 capital.

Forbearance/Forborne exposures

According to the EBA Implementing Technical Standard, forborne exposures are exposures in respect of which forbearance measures have been extended, consisting of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments (“financial difficulties”).

IAS/IFRS

International accounting standards issued by the International Accounting Standard Board (IASB), a private international body established in April 2001, involving representatives of the accounting professions of the principal countries and, as observers, the European Union, IOSCO (International Organization of Securities Commissions) and the Basel Committee. This body is the successor of the International Accounting Standards Committee (IASC), set up in 1973 to promote harmonization of the rules for the preparation of company accounts. When the IASC became the IASB, it was decided, among other things, to name the new accounting principles "International Financial Reporting Standards" (IFRS). At international level, work is currently underway to harmonize the IAS/IFRS with the US GAAP – United States Generally Accepted Accounting Principles (q.v.).

ICAAP – Internal Capital Adequacy Assessment Process

See "Basel 2 – Pillar 2".

Impairment

Within the framework of the IAS/IFRS (q.v.), this refers to the loss of value of a balance sheet asset, recorded when the book value is greater than the recoverable value, i.e. the sum that can be obtained by selling or using the asset.

Unlikely to pay

On-balance and off-balance sheet exposures that meet the definition of unlikely to pay, which do not meet the conditions to be classified as bad loans. The classification as “unlikely to pay” derives from the assessment of the debtor’s unlikeliness (without actions such as realisation of collateral) to repay fully his credit obligation (principal and/or interest). This assessment is made independently of any past due and unpaid amount (or instalment). The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked to indicators of a potential default of the borrower.

IRB – Internal Rating Based

Method for determining the capital needed to cover credit risk within the framework of Pillar 1 of Basel 2 (q.v). The rules are applied to the exposures of the banking book. Furthermore, in the IRB methods the risk weightings of the assets are determined on the basis of the bank's own internal evaluations of the debtors (or, in some cases, of the transactions). Using systems based on internal ratings, the banks determine the weighted risk exposure. The IRB methods consist of a basic method and an advanced method, which differ in terms of the risk parameters that the bank must estimate: in the basic method, the banks use their own estimates for "PD – Probability of Default" and the regulatory values for the other risk parameters; in the advanced method, the banks use their own estimates for "PD – Probability of Default ", "LGD – Loss Given Default", "CCF – Credit Conversion Factors" and, where provided for, "M - Maturity" (q.v.). The use of IRB methods for the calculation of capital requirements is subject to authorization from the Bank of Italy.

Maturity Ladder

Instrument for managing and monitoring short-term liquidity (operational liquidity), which, by offsetting assets and liabilities whose maturity falls within each individual time band, enables the identification of mismatches (periodic and cumulative) between incoming and outgoing cash flows and, therefore, to calculate the net financial requirement (or surplus) over the period of the year.

KPI - "Key Performance Indicators"

Set of indicators used to evaluate the success of a particular activity or process.

LCP

Loss Confirmation Period.

LGD – Loss Given Default

Expected value (which may be conditional upon adverse scenarios) of the ratio, expressed as a percentage, between the loss giving rise to the default and the amount of exposure at the time of the default ("EAD - Exposure At Default", q.v.).

PD – Probability of Default

Default Probability of a counterparty entering into a situation of "default" (q.v.) within a period of one year.

Tier 1 Capital Ratio

The percentage of a bank's Tier 1 Capital to its risk weighted assets "RWA – Risk Weighted Assets" (q.v.).

Rating

Evaluation of the quality of a company or its issues of debt securities on the basis of the company's financial soundness and prospects. This evaluation is made either by specialist agencies or by the bank on the basis of internal models.

Credit risk

The risk that an unexpected change in the credit rating of a counterparty, the value of the collateral they have provided, or of the amount used in the event of insolvency generates an unexpected change in the lending position of the Bank.

Credit counterparty risk

The risk that the counterparty in a transaction in financial instruments may enter default before settling all the agreed cash flows.

Liquidity risk

The risk of the company being unable to meet its payment commitments due to the inability to liquidate assets or obtain sufficient funding from the market (funding liquidity risk) or due to the difficulty/inability to easily liquidate positions in financial assets without significantly and unfavourably affecting the price because of insufficient depth or temporary malfunction of the financial market (market liquidity risk).

Market risk

Consists of the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can cause to the economic value of the portfolio, when it includes assets held in the trading book, as well as those posted in the banking book, both on the operations characteristically involved in commercial banking and in the choice of strategic investments.

Operational risk

The risk of losses due to errors, violations, interruptions, or damage caused by internal processes, personnel, systems or by external events. This definition includes legal and compliance risks, but excludes strategic and reputational risk. For example, losses arising from the following can be defined as operational: internal or external fraud, employment practices and workplace safety, customer claims, product distribution, fines and penalties for regulatory breaches, damage to the Company's physical assets, business disruption and system failures, and management of processes.

Countercyclical capital buffer

The countercyclical capital buffer consisting of Common Equity Tier 1 pursuant to Supervisory Regulations, according to the concept contained in Articles 128 and 130 of the CRD IV, equal to the risk weighted assets, calculated in accordance with Article 92, paragraph 3, of the CRR by the Company's countercyclical capital buffer, determined according to the criteria established by the Supervisory Regulations at an amount ranging from 0% to 2.5%.

Capital conservation buffer

According to the definition contained in Article 128 of the CRD IV, this is a capital reserve whose establishment is required by the regulations – as also specified in the Supervisory Provisions – aimed at providing banks of a high quality capital buffer to be used in periods of market strain to prevent malfunctions of the banking system and avoid disruptions in the credit granting process, amounting, when fully loaded, to 2.5% of risk-weighted assets, calculated in accordance with Article 92, sub-section 3, of the CRR on an individual and consolidated basis.

ROAC – Return on Allocated Capital

An indicator calculated as ratio of net profit to the average allocated/absorbed capital. It shows the earning capacity in percentage terms for allocated/absorbed capital units.

RWA – Risk Weighted Assets

It is the value of on-balance sheet and off-balance sheet risk-weighted assets on the basis of different weighting factors according to the class in which the exposure is classified and its credit quality, in accordance with the banking regulations issued by the regulatory authorities for the calculation of the solvency ratios.

Non-performing loans

Exposures to borrowers in a state of insolvency (even when not recognized in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the bank (i.e. irrespective of whether there are any – secured or personal – guarantees covering the exposures).

Trading Book

Positions held for trading are those held intentionally for a subsequent sale in the near term and/or assumed with the intention of benefiting, in the short term, from the differences between buying and selling prices, or other price or interest rate interest variations.

The undersigned Lorena Pelliciari, as Nominated Official in charge of drawing up Company Accounts of FinecoBank S.p.A.

DECLARES

that, pursuant to article 154-bis of the "Consolidated Law on Financial Intermediation", the information disclosed in this document corresponds to the accounting documents, books and records.

Milan, February 7, 2017

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